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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the fiscal year ended December 31, 2001

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND
EXCHANGE COMMISSION
Commission File Number 0-23827

PC CONNECTION, INC.

(Exact name of registrant as specified in its charter)

Delaware 02-0513618
State or other jurisdiction of (I.R.S. Employer Identification No.)
(incorporation or organization)

Rt. 101A, 730 Milford Road 03054
Merrimack, New Hampshire (Zip Code)
(Address of principal executive offices)

(603) 423-2000
Registrant's telephone number including area code

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01
par value

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

YES [X] NO []

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to
the best of registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K. []

The aggregate market value of the voting and non-voting stock held by
non-affiliates of the Registrant, based upon the closing price of the
Registrant's Common Stock as reported on the NASDAQ National Market on March
20, 2002, was \$79,122,304. Although directors and executive officers of the
registrant were assumed to be "affiliates" of the registrant for the purposes
of this calculation, this classification is not to be interpreted as an
admission of such status.

The number of outstanding shares of the Registrant's Common Stock on March
20, 2002 was 24,555,145.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2002 Annual Meeting of
Shareholders for the fiscal year ended December 31, 2001, which is to be filed
within 120 days of the end of the Company's fiscal year, are incorporated by
reference into Part III of this Form 10-K. The incorporation by reference
herein of portions of the Proxy Statement shall not be deemed to specifically
incorporate by reference the information referred to in Item 402(a) (8) of
Regulation S-K.

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PC CONNECTION, INC. AND SUBSIDIARIES

FORM 10-K ANNUAL REPORT
YEAR ENDED DECEMBER 31, 2001

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Item 1. Business

This section contains forward-looking statements based on management's current expectations, estimates and projections about the industry in which we operate, management's beliefs and certain assumptions made by management. All statements, trends, analyses and other information contained in this report relative to trends in net sales, gross margin and anticipated expense levels, as well as other statements, including words such as "anticipate", "believe", "plan", "estimate" and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements involve risks and uncertainties, and actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth under the caption "Factors That May Affect Future Results and Financial Condition" included in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations". Particular attention should be paid to the cautionary statements involving the industry's rapid technological change and exposure to inventory obsolescence, availability and allocations of goods, reliance on vendor support and relationships, competitive risks, pricing risks and the overall level of economic activity and the level of business investment in information technology products. Except as required by law, the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. Readers, however, should carefully review the factors set forth in other reports or documents that the Company files from time to time with the Securities and Exchange Commission.

General

We are a direct marketer of information technology products and solutions, including brand-name personal computers and related peripherals, software, accessories and networking products through our three sales subsidiaries, PC Connection Sales Corporation, PC Connection Sales of Massachusetts, Inc. and GovConnection, Inc. (formerly ComTeq Federal, Inc.). Our principal customers are small and medium-sized businesses, known as SMBs, comprised of 20 to 1,000 employees, as well as governmental agencies and educational organizations. We sell our products through a combination of targeted direct mail catalogs, outbound telemarketing, our Internet Web site and advertisements on the Internet and in selected computer magazines. We offer a broad selection of approximately 100,000 products targeted for business use at competitive prices, including products from Compaq, Hewlett-Packard, Toshiba, IBM, Microsoft, Sony, Acer, Fujitsu, Canon, Iomega and Apple. Our most frequently ordered products are carried in inventory and are typically shipped to customers the same day that the order is received.

Since our founding in 1982, we have served our customers' needs by providing innovative, reliable and timely service and technical support, and by offering an extensive assortment of branded products, through knowledgeable, well-trained sales and support teams. Our strategy's effectiveness is reflected in the recognition we have received, including being named to the Forbes Platinum 400, the Fortune 1000 and Information Week's list of Top 500 leading IT Innovators during 2001. Additionally in 2001, the Better Business Bureau of New Hampshire awarded us the coveted Torch Award for Marketplace Ethics.

We believe that our consistent customer focus has also resulted in the development of strong brand name recognition and a broad and loyal customer base. At December 31, 2001, our mailing list consisted of approximately 3,404,000 customers and potential customers, of which approximately 471,000 had purchased products from us within the last twelve months. Approximately 76% of our net sales in the year ended December 31, 2001 were made to customers who had previously purchased products from us. We believe we also have strong relationships with vendors, resulting in favorable product allocations and marketing assistance.

Enterprise network infrastructure products, such as PC-based servers, routers and switches, accounted for 19.8% of our total net sales in 2001, up from 17.4% of our total net sales in 2000. Over the next few years, we anticipate that an increasing share of our revenues will come from the sale of enterprise network infrastructure products and services, including network-based storage solutions, versus the current sales concentration in desktop and portable computers.

We focus our business-to-business marketing efforts on SMBs and government and educational organizations. At December 31, 2001, we employed 464 account managers, including 206 new account managers with less than 12 months of outbound telemarketing experience with us. Account managers are responsible for managing corporate accounts and focus on outbound sales calls to prospective customers. We are focusing on recruiting experienced account managers and increasing our existing account managers' success rate.

We publish several catalogs, including PC Connection(R) Professional Edition for information technology professionals, PC Connection(R), focused on PCs and compatible products, and MacConnection(R), focused on Apple Macintosh personal computers, known as Macs, and compatible products. With colorful illustrations, concise product descriptions, relevant technical information, along with toll-free telephone numbers for ordering, our catalogs are recognized as a leading source for personal computer hardware, software and other related products. We distributed approximately 42 million catalogs during the year ended December 31, 2001.

We also market our products and services through our Internet Web sites, www.pcconnection.com, www.govconnection.com and www.macconnection.com. Our Web sites provide customers and prospective customers with product information and enable customers to place electronic orders for products. Internet sales processed directly online during the fourth quarter of 2001 were \$25.2 million, or 9.2% of that quarter's net sales. Online sales in the fourth quarter of 2001 decreased 17.6% over the comparable quarter in 2000. For the fiscal year 2001, these sales were \$102.9 million, or 8.7% of net sales, compared to 7.8% in 2000.

The Internet supports three key business initiatives for us:

- . Customer choice -- We have built our business on the premise that our customers should be able to choose how they interact with us, be it by mail, telephone, fax, e-mail or over the Web.
- . Lowering transactions costs -- Our Web site tools, including robust product search features, Smart Selectors(R), Internet Business Accounts(R) and special interest pages, allow customers to quickly and easily find information about products of interest to them. If they still have questions, our Telesales Representatives and Outbound Account Managers are just a phone call away. Such phone calls are typically shorter and have higher close rates than calls from customers who have not first visited our Web sites.
- . Leveraging the time of experienced Account Managers -- Our investments in technology-based sales and service programs demonstrate the power of technology at its best - leveraging our Account Managers to do what they do best: building and maintaining relationships with our customers and helping them to solve their business problems.

ComTeq Federal, Inc. Changes Name To GovConnection, Inc.

On January 17, 2002, we announced that our wholly-owned subsidiary, ComTeq Federal, Inc., will operate under a new name, GovConnection, Inc. Since 1993, that Company has been a leading supplier of information technology (IT) products and solutions for federal government agencies.

The name change underscores recent rapid growth in GovConnection's sales and customer base, which in addition to federal agencies, will include state and local government agencies, as well as schools and colleges. The new name also better reflects our emphasis on customer service, as well as rapid response in the delivery of complex IT solutions to all public sectors.

Industry Background

The SMB marketplace is very large, including approximately 7.4 million small businesses with fewer than 100 employees and approximately 157,000 medium businesses with 100 to 999 employees. SMB's annually spend approximately \$150 billion on information technology products and services with approximately \$100 billion spent in product categories addressed by the Company's product and services offerings. These estimates exclude IT spending by consumers, home-based businesses and educational, not-for-profit and governmental organizations.

We believe that sales of computing and information technology products through the direct marketing channel will continue to grow faster than sales for the overall industry due primarily to increased user familiarity with PCs, coupled with the emergence of industry standards and component commonality, and broader product offerings, lower prices and greater purchasing convenience that direct marketers generally provide over traditional retail stores and local dealers.

Users of personal computers range from large corporate entities focused on business applications to individual consumers focused primarily on personal productivity, education and entertainment applications. Historically, large corporate resellers have served the needs of FORTUNE 1000 companies, and retailers have competed to serve the consumer market. SMBs, our core target customers, are being served by a wide range of suppliers, including direct marketers, large retailers, and small, independent value added resellers, known as VARs, and local dealerships. We believe that the direct field sales model used by large resellers is not an efficient method of reaching SMBs, and that VARs, local dealerships and retailers are unable to match the high level of customer service, extensive selection of products and low prices afforded to SMBs by direct marketers. Intense competition for market share has led manufacturers of PCs and related products to use all available channels to distribute products, including direct marketers. Although certain manufacturers who have traditionally used resellers to distribute their products have established or attempted to establish their own direct marketing operations, including sales through the Internet, to our knowledge, only one has replaced its traditional indirect selling channels as the principal means of distribution. Accordingly, we believe these manufacturers will continue to provide us and other third-party direct marketers favorable product allocations and marketing support.

We believe new entrants to the direct marketing channel must overcome a number of obstacles, including:

- . the time and resources required to build a meaningful customer base, quality and responsiveness for cost-effective circulation;
- . costs of developing the information and operating infrastructure required by direct marketers;
- . the advantages enjoyed by larger and more established competitors in terms of purchasing and operating efficiencies;
- . the difficulty of building relationships with manufacturers to achieve favorable product allocations and attractive pricing terms; and
- . the difficulty of identifying and recruiting management personnel with significant direct marketing experience in the industry.

Business Strategies

Our objective is to become the leading supplier of information technology products and solutions, including personal computers and related products and services, to our customers. The key elements of our business strategies include:

- . We provide award-winning customer service before, during and after the sale. We believe that we have earned a reputation for providing superior customer service by consistently focusing on our customer needs. We have won PC World's "World Class Award for Best Mail-Order Company" in nine out of the last eleven years, including a 2000 award for "Best Online/Mail-Order Catalog Company". We deliver value to our customers through high quality service and technical support provided by our knowledgeable, well-trained personnel. We have efficient and innovative delivery programs, and we also offer our customers competitive prices and reasonable return policies.
- . We maintain a strong brand name and customer awareness. Since our founding in 1982, we have built a strong brand name and customer awareness. In July 1999, we were the only direct reseller included in the "100 Most Influential Companies in the Computer Industry" by PC Magazine. In 2001, we were named to the Forbes Platinum 400, the Fortune 1000 and Information Week's list of top 500 Leading IT Innovators. Our mailing list includes approximately 3,404,000 names, of which approximately 471,000 have purchased products from us during the last 12 months.

- . We offer a broad product selection at competitive prices. We offer our customers a wide assortment of information technology products and solutions, including personal computers and related products, at competitive prices. Our merchandising programs feature products that provide customers with aggressive price and performance and the convenience of one-stop shopping for their personal computer and related needs.
- . We have long-standing vendor relationships. We have a history of strong relationships with vendors, and were among the first direct marketers qualified by manufacturers to market computer systems to end users. We provide our vendors with both information concerning customer preferences and an efficient channel for the advertising and distribution of their products.

Growth Strategies

Our growth strategies are to increase our penetration of our existing customer base, broaden our product offerings and expand our customer base. The key elements of our growth strategies include:

- . Focus on enterprise server and networking opportunities. We are accelerating our transition from an end-user or desktop-centric computing supplier to a network or enterprise-centric computing supplier. In 2001, sales of enterprise server and networking products accounted for 19.8% of our total net sales compared to 17.4% of our total net sales in 2000. Sales of enterprise products typically have larger average order sizes and higher gross margins than do sales of desktop computing products.
- . Expand product and service offerings. We continually evaluate information technology products and services focused on business users, adding new products and services as they become available or in response to customer demand. We work closely with vendors to identify and source first-to-market product offerings at aggressive prices, and believe that the expansion of our corporate outbound marketing program will enhance our access to such product offerings.
- . Target high growth customer segments. Through targeted mailings, we seek to expand the number of our active customers and generate additional sales from our existing customers. We have developed specialty catalogs, as well as standard catalogs with special cover pages, featuring product offerings designed to address the needs of specific customer populations, including new product inserts targeted to purchasers of graphics, server and networking products. In 2001, we focused on growing sales in our government and education segments. Such sales totaled \$286.8 million in 2001, compared to \$245.2 million in 2000, for a 17.0% increase.
- . Increase outbound telemarketing. We plan to continue to increase the number of our corporate outbound account managers and assign them to a greater number of our customers. Outbound account managers focus exclusively on serving specifically assigned customers and seek to develop a close relationship with those customers by identifying and responding to their needs for personal computers and related products.
- . Expand electronic commerce channel. Our Internet Web-based catalog provides detailed product descriptions, product search capabilities and on-line order processing. We plan to further improve on-line sales capabilities, customer service and product information and customer support available on our Internet Web site. During 2001, the number of customers utilizing our proprietary Internet Business Accounts(R) grew to approximately 29,500 at December 31, 2001 from 15,500 at December 31, 2000.
- . Pursue strategic acquisitions and alliances. Through our acquisition program, we seek to acquire new customers, strengthen our product offerings, add management talent and produce operating results which are accretive to our core business earnings.

Service And Support

Since our founding in 1982, our primary objective has been to provide products that meet the demands and needs of customers and to supplement those products with up-to-date product information and excellent customer

service and support. We believe that offering our customers superior value, through a combination of product knowledge, consistent and reliable service and leading products at competitive prices, differentiates us from other direct marketers and provides the foundation for developing a broad and loyal customer base.

We invest in training programs for our service and support personnel, with an emphasis on putting customer needs and service first. Customer service representatives are available 24 hours a day, seven days a week to handle orders, product information and general inquiries, and technical support questions.

We provide toll-free technical support from 9 a.m. through 5 p.m., eastern time, Monday through Friday. Product support technicians assist callers with questions concerning compatibility, installation, determination of defects and more difficult questions relating to product use. The product support technicians authorize customers to return defective or incompatible products to either the manufacturer or to us for warranty service. In-house technicians perform both warranty and non-warranty repair on most major systems and hardware products.

Using our customized information system, we send our customer orders to our distribution center for processing immediately after a customer receives credit approval. Through our Everything Overnight(R) service, we guarantee that all orders accepted up until 2:00 a.m. (until midnight on most custom-configured systems) will be shipped for overnight delivery via Airborne Express. We also configure approximately 20% of the computer systems we sell. Configuration typically consists of the installation of memory, accessories and/or software.

Marketing And Sales

We sell our products through our direct marketing channel, primarily to SMBs, governmental agencies and educational organizations. We seek to be the primary supplier of information technology products and solutions, including personal computers and related products, to our existing customers and to expand our customer base. We use multiple marketing approaches to reach existing and prospective customers, including:

- . outbound telemarketing;
- . catalogs and inbound telesales;
- . Web and print media advertising; and
- . marketing programs targeted to specific customer populations.

All of our marketing approaches emphasize our broad product offerings, fast delivery, customer support, competitive pricing and multiple payment options.

We believe that our ability to establish and maintain long-term customer relationships and to encourage repeat purchases is largely dependent on the strength of our telemarketing personnel and programs. Because our customers' primary contact with us is through our telemarketers, we are committed to maintaining a qualified, knowledgeable and motivated sales staff with its principal focus on customer service.

The following table sets forth our percentage of net sales by sales channel:

Sales Channel	Years Ended December 31,		
	2001	2000	1999
Outbound Telemarketing	79%	76%	65%
Inbound Telesales.....	12	16	29
On-Line Internet.....	9	8	6
Total.....	100%	100%	100%

Outbound Telemarketing. We seek to build loyal relationships with our potential high-volume customers by assigning them to individual account managers. We believe that customers respond favorably to a one-on-one

relationship with personalized, well-trained account managers. Once established, these one-on-one relationships are maintained and enhanced through frequent telecommunications and targeted catalogs and other marketing materials designed to meet each customer's specific computing needs.

Account managers focus exclusively on their managed accounts and on outbound sales calls to prospective customers. We generally recruit account managers from other sales organizations and from our inbound telemarketing staff. All account managers must successfully complete a three-month training program, which includes instruction in our product offerings and order management systems, as well as selling skills and account management. Thereafter, new account managers are assigned to sales teams where they receive intensive coaching and supervision by experienced supervisors, and periodic refresher training from the sales training staff. Additional training and product education programs are provided continuously through programs supported by our vendors. We pay our account managers a base annual salary plus incentive compensation. Incentive compensation is tied to gross profit dollars produced by the individual account manager. Account managers historically have significantly increased productivity after approximately 12 months of training and experience. At December 31, 2001, we employed 464 account managers, including 206 with less than 12 months of outbound telemarketing experience with us.

Catalogs and Inbound Telesales. Our two principal catalogs are PC Connection(R) for the PC market and MacConnection(R) for the Mac market. We publish twelve editions of each of these catalogs annually. We distribute catalogs to purchasers on our in-house mailing list as well as to other prospective customers. We send our two principal catalogs to our best customers twice each month. The initial mailing each month, labeled an "early edition," is sent simultaneously to the best customers throughout the United States and features special offers, such as first-to-market product offerings, highlighted on the cover. We also include a catalog with each order shipped.

In addition, we mail specialty catalogs or customized versions of our catalogs, including our new Information Technology Professional Edition, to selected customers. We distribute specialty catalogs to information technology professionals, educational and governmental customers and prospects on a periodic basis. We also distribute our monthly catalogs customized with special covers and inserts, offering a wider assortment of special offers on products in specific areas such as graphics, server/netcom and mobile computing, or for specific customers, such as developers. These customized catalogs are distributed to targeted customers included in our customer database using past identification or purchase history, as well as to outside mailing lists.

Each catalog is printed with full-color photographs, detailed product descriptions and manufacturer specifications. The catalogs are primarily created by in-house designers and production artists on a computer-based desktop publishing system. The in-house preparation of most portions of the catalog expedites our production process and provides it with greater flexibility and creativity in catalog production by allowing for last-minute changes in pricing and format. Overall, such in-house preparation results in significant cost savings to us. After completion of the design and preparation, we outsource the catalogs to commercial printers for printing.

Our inbound sales representatives answer customer telephone calls generated by our catalog, magazine and other advertising programs. These representatives also assist customers in making purchasing decisions, process product orders and respond to customer inquiries on order status, product pricing and availability. We provide training to our inbound telemarketing personnel and provide incentive compensation based upon sales productivity. We have a flexible staffing model which allows us to maintain excellent customer service during periods of peak demand while maintaining an efficient cost structure. We regularly monitor calls for quality assurance purposes. We have been a pioneer in using caller identification for the instant retrieval of customer records. Using our proprietary information systems, sales representatives can quickly access customer records which detail purchase history and billing and shipping information, expediting the ordering process. In addition to receiving orders through our toll-free numbers, orders are also received via fax, mail and electronic mail.

Advertising. We have historically advertised in selected personal computer and trade magazines, such as PC Magazine, PC World and Macworld. These advertisements provide potential customers with product descriptions, manufacturers' specifications and pricing information, while emphasizing our service and support features. Additionally, the PC Connection(R) logo and telephone number are included in promotions by selected manufacturers.

www.pcconnection.com, www.govconnection.com and www.macconnection.com. We provide product descriptions and prices of all products on-line. We also provide updated information for over 29,000 items and on screen images available for over 18,000 items. We offer, and continuously update, selected product offerings and other special buys. We believe that in the future our Internet Web site will be an important sales source and communication tool for improving customer service.

Specialty Marketing. Our specialty marketing activities include direct mail, other inbound and outbound telemarketing services, bulletin board services, "fax on demand" services, package inserts, fax broadcasts and electronic mail. We also market call-answering and fulfillment services to certain of our product vendors.

Customers. We currently maintain an extensive database of customers and prospects aggregating approximately 3,404,000 names. During the year ended December 31, 2001, we received orders from approximately 471,000 customers. Approximately 76% of our net sales in the year ended December 31, 2001 were made to customers who had previously purchased products from us.

Products And Merchandising

We continuously focus on expanding the breadth of our product offerings. We currently offer approximately 100,000 information technology products designed for business applications from over 1,000 manufacturers, including hardware and peripherals, accessories, networking products and software. We offer both PCs and Macs and related products. In 2001, sales of PCs and related products were approximately 90% of our net sales. We select the products that we sell based upon their technology and effectiveness, market demand, product features, quality, price, margins and warranties. As part of our merchandising strategy, we also offer products related to PCs, such as digital cameras.

The following table sets forth our percentage of net sales (in dollars) of notebooks, desktops and servers, storage devices, software, networking communications equipment, printers, video and monitors, memory, accessories and other products during the years ended December 31, 2001, 2000 and 1999.

	PERCENTAGE OF NET SALES		
	Years Ended December 31		
	2001	2000	1999
Notebooks.....	22%	25%	23%
Desktops/Servers.....	12	15	15
Storage Devices.....	10	10	10
Software.....	13	10	12
Networking Communications	9	8	6
Printers.....	8	7	9
Video & Monitors.....	9	8	8
Memory.....	3	4	4
Accessories/Other.....	14	13	13
TOTAL.....	100%	100%	100%

We offer a 30-day right of return generally limited to defective merchandise. Returns of non-defective products are subject to restocking fees. Substantially all of the products marketed by us are warranted by the manufacturer. We generally accept returns directly from the customer and then either credit the customer's account or ship the customer a similar product from our inventory.

Purchasing And Vendor Relations

For the year ended December 31, 2001, we purchased approximately 45.2% of our products directly from manufacturers and the balance from distributors and aggregators. We ship the majority of our products directly to our distribution facility in Wilmington, Ohio. During the years ended December 31, 2001 and 2000, product purchases from Ingram Micro, our largest vendor, accounted for approximately 24.7% and 25.6%, respectively, of our total product purchases. Purchases from Tech Data Corporation comprised 14.1% and 11.2% of our total purchases in the years ended December 31, 2001 and 2000, respectively. No other vendor accounted for more than 10% of our total product purchases. We believe that alternative sources for products obtained from Ingram Micro and Tech Data are available.

Many product suppliers reimburse us for advertisements or other cooperative marketing programs in our catalogs or advertisements in personal computer magazines that feature a manufacturer's product. Reimbursements may be in the form of discounts, advertising allowances and/or rebates. We also receive reimbursements from certain vendors based upon the volume of purchases or sales of the vendors' products by us.

Some of our vendors offer limited price protection in the form of rebates or credits against future purchases. We may also participate in end-of-life-cycle and other special purchases which may not be eligible for price protection.

We believe that we generally have excellent relationships with vendors. We generally pay vendors within stated terms and take advantage of all appropriate discounts. We believe that because of our volume purchases we are able to obtain product pricing and terms that are competitive with those available to other major direct marketers. Although brand names and individual product offerings are important to our business, we believe that competitive sources of supply are available in substantially all of the merchandise categories offered by us.

Distribution

At our approximately 205,000 square foot distribution and fulfillment complex in Wilmington, Ohio, we receive and ship inventory, configure computer systems and process returned products. Orders are transmitted electronically from our New Hampshire, Massachusetts and Maryland sales facilities to our Wilmington distribution center after credit approval, where packing documentation is printed automatically and order fulfillment takes place. Through our Everything Overnight(R) service, we guarantee that all orders accepted up until 2:00 a.m. (until midnight on custom-configured systems) will be shipped for overnight delivery via Airborne Express. We ship approximately 56% of our orders through Airborne Express. Upon request, orders may also be shipped by other common carriers.

We also place product orders directly with manufacturers and/or distribution companies for drop shipment by those manufacturers and/or suppliers directly to customers. Order status with distributors is tracked on line and in all circumstances, a confirmation of shipment from manufacturers and/or distribution companies is received prior to recording revenue. Products drop shipped by suppliers accounted for 22.0% of net sales in 2001 and 11.4% of net sales in 2000. In future years, we expect that products drop shipped from suppliers will increase, both in dollars and as a percentage of net sales, as we seek to lower our overall inventory and distribution costs while maintaining excellent customer service.

Management Information Systems

We use management information systems, principally comprised of applications software running on IBM AS/400 and RS6000 computers and Microsoft NT-based servers, which we have customized for our use. These systems permit centralized management of key functions, including order taking and processing, inventory and accounts receivable management, purchasing, sales and distribution, and the preparation of daily operating control reports on key aspects of the business. We also operate advanced telecommunications equipment to

support our sales and customer service operations. Key elements of the telecommunications systems are integrated with our computer systems to provide timely customer information to sales and service representatives, and to facilitate the preparation of operating and performance data. We believe that our customized information systems enable us to improve our productivity, ship customer orders on a same-day basis, respond quickly to changes in our industry and provide high levels of customer service.

Our success is dependent in large part on the accuracy and proper use of our information systems, including our telephone systems, to manage our inventory and accounts receivable collections, to purchase, sell and ship our products efficiently and on a timely basis, and to maintain cost-efficient operations. We expect to continually upgrade our information systems to more effectively manage our operations and customer database.

Competition

The direct marketing and sale of information technology products, including personal computers and related products, is highly competitive. PC Connection competes with other direct marketers of information technology products, including CDW Computer Centers, Inc. and Insight Enterprises, Inc. We also compete with:

- . certain product manufacturers that sell directly to customers, such as Dell Computer Corporation and Gateway, Inc., and more recently Compaq, IBM and Apple;
- . distributors that sell directly to certain customers;
- . various cost-plus aggregators, franchisers, and national computer retailers, such as CompUSA, Inc.; and
- . companies with more extensive Internet Web sites and commercial on-line networks.

Additional competition may arise if other new methods of distribution, such as broadband electronic software distribution, emerge in the future.

We compete not only for customers, but also for favorable product allocations and cooperative advertising support from product manufacturers. Several of our competitors are larger and have substantially greater financial resources than us.

We believe that price, product selection and availability, and service and support are the most important competitive factors in our industry.

Intellectual Property Rights

Our trademarks include PC Connection(R), GovConnection(R) and MacConnection(R) and their related logos; Everything Overnight(R), One-Minute Mail Order(R), PC & Mac Connection(R), Systems Connection(R), The Connection(R), Raccoon Character(R), Service Connection(TM), Graphics Connection(TM), and Memory Connection(TM), Your Brands, Your Way, Next Day(R), Epiq PC Systems(R) and Webase(R). We intend to use and protect these and our other marks, as we deem necessary. We believe our trademarks and service marks have significant value and are an important factor in the marketing of our products. We do not maintain a traditional research and development group, but we work closely with computer product manufacturers and other technology developers to stay abreast of the latest developments in computer technology, both with respect to the products we sell and use.

Employees

As of December 31, 2001, we employed 1,312 persons, of whom 618 were engaged in sales related activities, 90 were engaged in providing customer service and support, 345 were engaged in purchasing, marketing and distribution related activities, 86 were engaged in the operation and development of management information systems, and 173 were engaged in administrative and accounting functions. We consider our employee relations to be good. Our employees are not represented by a labor union, and we have never experienced a work stoppage since our inception.

Item 2. Properties

In November 1997, we entered into a fifteen year lease for our corporate headquarters and telemarketing center located at Route 101A, 730 Milford Road, Merrimack, New Hampshire 03054-4631, with an affiliated entity, G&H Post, which is related to PC Connection through common ownership. The total lease is valued at approximately \$7.0 million, based upon an independent property appraisal obtained at the date of lease, and interest is calculated at an annual rate of 11%. The lease requires us to pay our proportionate share of real estate taxes and common area maintenance charges as additional rent and also to pay insurance premiums for the leased property. We have the option to renew the lease for two additional terms of five years each. The lease has been recorded as a capital lease in the financial statements.

We also lease 205,000 square feet in two facilities in Wilmington, Ohio, which houses our distribution and order fulfillment operations. The Ohio leases will expire in 2002 and 2003. We are currently in the process of renegotiating the Ohio lease set to expire in 2002. We also operate telemarketing centers in Dover, Amherst and Keene, New Hampshire, as well as Marlborough, Massachusetts and Rockville, Maryland. We believe that existing distribution facilities in Wilmington, Ohio will be sufficient to support our anticipated needs through the next twelve months.

Item 3. Legal Proceedings

On February 12, 2002, Microsoft Corporation filed a complaint against PC Connection in New Hampshire Federal District Court alleging that we had sold counterfeit shrinkwrapped, packaged software and, in the process, infringed on Microsoft's trademarks and copyrights. While we never counterfeited Microsoft products, nor knowingly resold counterfeit Microsoft products, we believed that it was in our best interest to settle the dispute rather than to litigate.

While denying the allegations, we agreed to pay Microsoft \$625,000 to settle the case. The settlement costs and related legal fees of approximately \$125,000 will be included as a special charge in our first quarter 2002 financial results.

We also agreed in the settlement to acquire Microsoft products only through distributors identified as authorized by Microsoft, codifying a policy that we have had in place since early 2001.

On March 20, 2002, The Lemelson Medical, Education & Research Foundation, L.P. filed a complaint in federal district court in the State of Arizona naming us as an additional defendant in the so-called "Federal Express" case. The Federal Express case involves approximately eighty-eight defendants and pertains to claims made by the foundation relating to its right to royalties for the use of bar code scanners that allegedly utilize technology covered by patents now owned by the foundation. The foundation has previously filed claims against manufacturers of bar code scanners and has now also filed claims against users of bar code scanners, including PC Connection. The manufacturers of bar code scanners and the foundation are currently engaged in litigation in Nevada Federal District Court relating to the validity of the patents at issue. The defendants in the Arizona litigation have requested the federal district court to stay the proceedings pending the outcome of the Nevada litigation, which the Court granted. Until the Nevada patent litigation is resolved, we will expend little, if any, legal fees in the Arizona case. If the bar code manufacturers are successful in the Nevada case, we expect the Arizona court to dismiss the action against us.

The foundation has not specified the amount of damages it seeks in its complaint, but such damages may be material. If the foundation ultimately prevails in the Arizona litigation, the damages assessed against us may be material and may have a material adverse effect on our financial condition. In addition, we may be required to modify the methods by which we track inventories and ship products which may have a material adverse effect on our results of operations. We intend to vigorously defend this claim and, to the extent we are found liable, we believe we have indemnification claims against certain manufacturers of bar code scanners.

While we may ultimately decide to seek indemnity from certain manufacturers of bar code scanners, we can provide no assurance that we would be successful in obtaining such indemnity. At a minimum, if the Nevada or Arizona litigation proceeds, we may incur material legal fees in the defense of the foundation's claims or in seeking indemnity from certain manufacturers of bar code scanners.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted during the fourth quarter of 2001 to a vote of security holders.

Executive Officers of PC Connection

The executive officers of PC Connection and their ages as of March 20, 2002 are as follows:

Name	Age	Position
----	---	-----
Patricia Gallup....	47	Chairman
Kenneth Koppel.....	58	Chief Executive Officer
Wayne L. Wilson....	53	President and Chief Operating Officer
Robert F. Wilkins..	40	Executive Vice President
Mark A. Gavin.....	40	Senior Vice President of Finance and Chief Financial Officer
Bradley G. Mousseau	50	Vice President of Human Resources

Patricia Gallup is a co-founder of the Company and has served as Chairman since June 2001. From January 1998 to June 2001, Ms. Gallup served as Chairman and Chief Executive Officer of the Company. From September 1995 to January 1998, Ms. Gallup served as the Chairman, President and Chief Executive Officer of the Company. From September 1994 to September 1995, she served as Chairman and Chief Executive Officer of the Company. From August 1990 to September 1994, Ms. Gallup served as the Company's President and Chief Executive Officer.

Kenneth Koppel has served as Chief Executive Officer of the Company since June 2001. Prior to joining the Company, Mr. Koppel served as a principal in or a consultant to several new media and marketing companies, including an assignment as an interim executive at PC Connection. From 1972 to 1992, Mr. Koppel served in a variety of roles at Ziff-Davis Publishing Company, including President of Ziff-Davis Publishing and President of Ziff Communications.

Wayne L. Wilson has served as President and Chief Operating Officer of the Company since January 1998 and Chief Financial Officer from January 1998 to March 1998. From January 1996 to January 1998, Mr. Wilson served as Senior Vice President, Chief Operating Officer and Chief Financial Officer of the Company. From August 1995 to January 1996, he served as Senior Vice President of Finance and Chief Financial Officer of the Company. Prior to joining the Company, Mr. Wilson was a partner in the accounting and consulting firm of Deloitte & Touche LLP from June 1986 to August 1995.

Robert F. Wilkins has served as Executive Vice President of the Company since January 2000. Mr. Wilkins served as Senior Vice President of Sales and Marketing from January 1999 to January 2000 and Senior Vice President of Merchandising and Product Management of the Company from January 1998 to January 1999. From December 1995 to January 1998, Mr. Wilkins served as Vice President of Merchandising and Product Management of the Company. From September 1994 to December 1995 he was a consultant to the Company and certain of its affiliates. From February 1990 to September 1994, Mr. Wilkins served as President of Mac's Place.

Mark A. Gavin has served as Senior Vice President of Finance and Chief Financial Officer since January 2000 and as Vice President of Finance and Chief Financial Officer of the Company since March 1998. Prior to joining PC Connection, Mr. Gavin held the position of Executive Vice President and Chief Operating Officer at CFX Corporation, a bank holding company in Keene, New Hampshire from April 1989 to March 1998. Prior to CFX, Mr. Gavin worked as a Manager for Ernst & Young, LLP.

Bradley G. Mousseau has served as Vice President of Human Resources since January 2000. Prior to joining PC Connection, Mr. Mousseau served as Vice President of Global Workforce Strategies for Systems & Computer Technology Corporation (SCT) from April 1997 to January 2000. Prior to SCT, Mr. Mousseau served as Vice President of Human Resources for Gabreili Medical Info Systems.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

Market Information

PC Connection's Common Stock commenced trading on March 3, 1998 on the Nasdaq National Market under the symbol "PCCC". As of March 20, 2002, there were 24,555,145 shares outstanding of the Common Stock of PC Connection held by approximately 90 stockholders of record.

The following table sets forth for the fiscal periods indicated the range of high and low bid prices for our Common Stock on the Nasdaq National Market. These prices reflect the three-for-two stock split distributed on May 23, 2000.

2001	High	Low
----	-----	-----
Quarter Ended:		
December 31..	\$17.79	\$ 6.85
September 30.	16.30	6.00
June 30.....	16.77	8.50
March 31.....	20.56	8.13
2000		

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

We have never declared or paid cash dividends on our capital stock. We currently anticipate that we will retain all future earnings, if any, to fund the development and growth of our business, and we do not anticipate paying any cash dividends on our Common Stock in the foreseeable future.

Item 6. Selected Financial and Operating Data

The following selected financial and operating data should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere herein. The selected data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" for each of the years in the five-year period ended December 31, 2001 are derived from the audited financial statements of the Company. The Company's consolidated financial statements as of December 31, 2001 and 2000 and for each of the years in the three-year period ended December 31, 2001 and the independent auditors' report thereon, are included elsewhere herein.

	Years Ended December 31,				
	2001	2000	1999	1998	1997
	(dollars in thousands, except per share and selected operating data)				
Statement of Operations Data:					
Net sales.....	\$ 1,180,951	\$ 1,449,908	\$ 1,080,835	\$ 749,905	\$ 562,511
Cost of sales.....	1,049,799	1,273,687	951,489	656,631	486,545
Gross profit.....	131,152	176,221	129,346	93,274	75,966
Selling, general and administrative expenses.....	117,508	123,972	91,405	68,521	56,596
Additional stockholder/officer compensation/(1)/..	--	--	--	2,354	12,130
Restructuring costs and other special charges/(2)/	2,204	--	--	--	--
Income from operations.....	11,440	52,249	37,941	22,399	7,240
Interest expense.....	(1,179)	(2,086)	(1,392)	(415)	(1,355)
Other, net.....	1,307	589	116	565	(42)
Income before income taxes.....	11,568	50,752	36,665	22,549	5,843
Income tax provision/(3)/.....	(4,396)	(19,289)	(13,935)	(3,905)	(639)
Net income.....	\$ 7,172	\$ 31,463	\$ 22,730	\$ 18,644	\$ 5,204
	Pro Forma Data/(4)/				
Basic net income per share/(5)/.....	\$.29	\$ 1.31	\$.97	\$.61	\$.17
Diluted net income per share/(5)/.....	\$.29	\$ 1.23	\$.94	\$.59	\$.17
Selected Operating Data:					
Active customers/(6)/.....	471,000	626,000	732,000	684,000	510,000
Catalogs distributed.....	41,683,000	45,028,000	47,325,000	42,150,000	33,800,000
Orders entered/(7)/.....	1,265,000	1,521,000	1,622,000	1,510,000	1,252,000
Average order size/(7)/.....	\$ 1,116	\$ 1,115	\$ 781	\$ 580	\$ 524
	December 31,				
	2001	2000	1999	1998	1997
	(dollars in thousands)				
Balance Sheet Data:					
Working capital.....	\$ 120,856	\$ 111,669	\$ 72,250	\$ 53,768	\$ 18,907
Total assets.....	244,235	250,413	223,537	164,510	105,442
Short-term debt.....	1,171	1,153	1,137	123	29,568
Long-term debt (less current maturities):					
Capital lease obligations.....	6,621	6,792	6,945	7,081	--
Term loan.....	--	--	--	--	3,250
Note payable.....	--	1,000	2,000	--	--
Total stockholders' equity.....	147,176	138,687	94,223	69,676	24,120

/(1)/ 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.

- /(2)/ Includes \$1,510 for the cost of reductions in the Company workforce and \$694 for costs relating to a proposed acquisition that was abandoned during the year.
- /(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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's consolidated financial statements.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements based on management's current expectations, estimates and projections about the Company's industry, management's beliefs and certain assumptions made by management. All statements, trends, analyses and other information contained in this report relative to trends in net sales, gross margin and anticipated expense levels, as well as other statements, including words such as "anticipate", "believe", "plan", "estimate" and "intend" and other similar expressions, constitute forward-looking statements. These forward-looking statements involve risks and uncertainties, and actual results may differ materially from those anticipated or expressed in such statements. Potential risks and uncertainties include, among others, those set forth under the caption "Factors That May Affect Future Results and Financial Condition" included within this section. Particular attention should be paid to the cautionary statements involving the industry's rapid technological change and exposure to inventory obsolescence, availability and allocations of goods, reliance on vendor support and relationships, competitive risks, pricing risks, and the overall level of economic activity and the level of business investment in information technology products. Except as required by law, the Company undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. Readers, however, should carefully review the factors set forth in other reports or documents that the Company files from time to time with the Securities and Exchange Commission.

Significant Accounting Policies

The consolidated financial statements of PC Connection are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses during the periods presented. The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

Revenue on products sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred and there is a reasonable assurance of collection of the sales proceeds. We generally obtain oral and written purchase authorizations from our customers for a specified amount of product at a specified price and consider delivery to have occurred at the point of shipment, except for sales to federal agencies, for which delivery occurs at destination. We provide our customers with a limited thirty day right of return only for defective merchandise. Revenue is recognized at shipment and a reserve for

sales returns is recorded. The Company has demonstrated the ability to make reasonable and reliable estimates of product returns in accordance with Statement of Financial Accounting Standards No. 48 ("SFAS No. 48"), "Revenue Recognition When Right of Return Exists", based on significant historical experience. Should such returns no longer prove to be estimable, we believe that the impact on our financials would not necessarily be significant since the return privilege expires 30 days after shipment.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and customers' current credit worthiness. Collections are monitored continuously, and an allowance for estimated doubtful accounts is maintained based on our historical experience and customer collection issues identified. While such credit losses have historically been within our expectations, further deterioration of customers' ability to make required payments may make additional allowances necessary.

In addition to accounts receivable from customers, we record receivables from vendors/suppliers for cooperative advertising, price protection, supplier reimbursements, rebates and other similar arrangements. A portion of such receivables is estimated based on information available from our vendors at discrete points in time. While such estimates have historically approximated actual cash received, an unanticipated change in a promotional program could give rise to a reduction in the receivable.

Inventories - Merchandise

Inventories (all finished goods) consisting of software packages, computer systems and peripheral equipment are stated at cost (determined under the first-in, first-out method) or market, whichever is lower. Inventory quantities on hand are reviewed regularly, and provisions are made for obsolete, slow moving and non-salable inventory, based primarily on management's forecast of customer demand for those products in inventory. The PC industry is characterized by rapid technological change and new product development that could result in increased obsolescence of inventory on hand. Increased obsolescence or decreased customer demand beyond management's expectations could require additional provisions.

Recent Developments

On March 25, 2002, we entered into an Agreement and Plan of Merger with MoreDirect, Inc., a Florida corporation. MoreDirect is an e-procurement supplier of information technology products for medium-to-large corporate and government organizations nationwide. Pursuant to the merger agreement, MoreDirect will be merged with our newly formed Florida merger subsidiary. Following the merger, MoreDirect will continue its operations as our wholly owned subsidiary under its existing management. Under the terms of the merger agreement, MoreDirect's stockholders will receive approximately \$21,000,000 at closing. The merger agreement contemplates an earn-out period of three years following the closing whereby if MoreDirect maintains certain earnings before income tax, or EBIT, levels, additional payments will be made to MoreDirect's stockholders. Under the merger agreement, earn-out payments are tied to EBIT levels targeted to grow at a 15% rate per year. The maximum payments we will make under the earn-out provisions of the merger agreement are \$67,106,000, assuming MoreDirect maintains 200% of targeted EBIT levels for all three years. If MoreDirect maintains less than 60% of targeted EBIT levels for all three years, no payments would be required under the earn-out provisions of the merger agreement. At any time during the earn-out period, we may "buy-out" the remaining earn-out payments for amounts which vary during the term of the earn-out. We will also escrow \$10,000,000 at closing to fund a portion of these contingent payments. Certain portions of the contingent payments may be converted into our common stock at specified conversion prices between \$20.80 and \$40.00 per share. The consummation of the transactions contemplated in the merger agreement are subject to the satisfaction of several conditions. Our acquisition of MoreDirect will be immediately accretive to earnings and will be accounted for under the purchase method of accounting.

General

PC Connection was founded in 1982 as a mail-order business offering a broad range of software and accessories for IBM and IBM-compatible personal computers. The founders' goal was to provide consumers with superior service and high quality branded products at competitive prices. We initially sought customers through advertising in selected computer industry publications and the use of inbound toll-free telemarketing. Currently, we generate sales through (i) outbound telemarketing by account managers focused on the business, education and government markets, (ii) inbound calls from customers responding to our catalogs and other advertising and (iii) our Internet Web site.

We offer both PC compatible products and Mac compatible products. Reliance on Mac product sales has decreased over the last three years, from 19.4% of net sales for the year ended December 31, 1998 to 10.1% of net sales for the year ended December 31, 2001. We believe that sales attributable to Mac products will continue to decrease as a percentage of net sales and may also decline in absolute dollar volume in 2002 and future years.

The weakness in demand for information technology products experienced by us in the fourth quarter of 2000 continued through 2001, resulting in overall conservative buying patterns, order deferrals and longer sales cycles.

Sales of computer systems result in a relatively high dollar sales order, as reflected in the increase in our average order size from \$580 in the year ended December 31, 1998 to \$1,116 in the year ended December 31, 2001. Computer systems generally provide the largest gross profit dollar contribution per order of all our products, although they usually yield the lowest gross margin percentage.

Our profit margins are also influenced by, among other things, industry pricing and the relative mix of inbound versus outbound sales. Generally, pricing in the computer and related products market is very aggressive, and we intend to maintain prices at competitive levels. Since outbound sales are typically to corporate accounts that purchase at volume discounts, the gross margin on such sales is generally lower than inbound sales. However, the gross profit dollar contribution per order is generally higher as average order sizes of orders to corporate accounts are usually larger. We believe that outbound sales will continue to represent a larger portion of our business mix in future periods.

The direct marketing of personal computers and related products is highly competitive. In addition to other direct marketers and manufacturers who sell direct, such as Dell and Gateway, manufacturers of PCs sold by us, such as Apple, Compaq and IBM, have also implemented varying plans to sell PCs directly to end users. We currently believe that direct sales by Compaq and IBM will not have a significant adverse effect upon our net sales.

Most product manufacturers provide us with co-op advertising support in exchange for product coverage in our catalogs. Although the level of co-op advertising support available to us from certain manufacturers has declined, and may decline further in the future, the overall level of co-op advertising programs has remained consistent with our levels of spending for catalog and other advertising programs. We believe that the overall levels of co-op advertising programs available over the next twelve months will be consistent with our planned advertising programs. For financial reporting purposes, revenue garnered from cooperative advertising services is offset against selling, general and administrative expenses in our consolidated statements of income.

Results of Operations

The following table sets forth for the periods indicated information derived from our statements of income expressed as a percentage of net sales.

	Years Ended December 31,		
	2001	2000	1999
Net sales (in millions).....	\$1,181.0	\$1,449.9	\$1,080.8
Net sales.....	100.0%	100.0%	100.0%
Gross profit.....	11.1	12.2	12.0
Selling, general and administrative expenses.....	9.9	8.6	8.5
Restructuring costs and other special charges.....	0.2	0.0	0.0
Income from operations.....	1.0	3.6	3.5

The following table sets forth our percentage of net sales by platform, sales channel, and product mix:

	Years Ended December 31,		
	2001	2000	1999
Platform			
PC and Multi Platform....	90%	90%	85%
Mac.....	10	10	15
Total.....	100%	100%	100%
Sales Channel			
Corporate Outbound.....	79%	76%	65%
Inbound Telesales.....	12	16	29
On-Line Internet.....	9	8	6
Total.....	100%	100%	100%
Product Mix			
Notebooks.....	22%	25%	23%
Desktop/Servers.....	12	15	15
Storage Devices.....	10	10	10
Software.....	13	10	12
Networking Communications.....	9	8	6
Printers.....	8	7	9
Video & Monitors.....	9	8	8
Memory.....	3	4	4
Accessories/Other.....	14	13	13
Total.....	100%	100%	100%

Sales of enterprise server and networking products (included in the above product mix) were 19.8%, 17.4% and 11.6% of net sales for the years ended December 2001, 2000 and 1999, respectively.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Net sales decreased \$268.9 million, or 18.5%, to \$1,181.0 million in 2001 from \$1,449.9 million in 2000. The decrease in net sales was due to the weakness in demand for information technology products. Outbound sales decreased \$162.1 million, or 14.7%, to \$937.8 million from \$1,099.9 million in 2000. While there was an overall decrease in outbound sales, this channel increased as an overall component of our business. Outbound sales increased by 3% as a percentage of overall net sales to 79% in 2001 as compared to 76% in 2000. Inbound sales, which primarily serve our consumer and very small business customers decreased \$96.8 million, or 40.8%, to \$140.2 million, from \$237.0 million in 2000. Online Internet sales decreased \$10.1 million, or 8.9%, to \$102.9 million from \$113.0 million in 2000, however online Internet sales increased to 9% of total net sales in 2001, as compared to 8% of total net sales in 2000. Our sales to consumers and small businesses were more negatively impacted during the 2001 economic slowdown than were sales to our larger business customers, who generally purchase through either the outbound or Internet channels. We believe that sales to consumers and small businesses will continue to be more heavily impacted than sales to large business customers if the economic slowdown continues.

Net sales of enterprise server and networking products decreased 7.5% to \$234.0 million in 2001 as compared to \$253.0 million in 2000. Enterprise server and networking products represented 19.8% of overall net sales for the year, up from 17.4% for the year ended 2000. While sales of these products declined in absolute dollar amounts in 2001, we believe that sales of these product categories will continue to grow as a percentage of our net sales as customers further upgrade their network and communication infrastructures. If economic conditions do not improve in the near term, the anticipated sales growth of these types of products will not likely occur as expected.

As of December 31, 2001, the number of outbound sales account managers totaled 464, a 19.3% decrease, compared to 575 account managers at the end of 2000. We are focusing on recruiting experienced account managers and increasing the success rate of our existing account managers.

Gross profit decreased \$45.0 million, or 25.5%, to \$131.2 million in 2001 from \$176.2 million in 2000. The decrease in gross profit dollars was attributable to the decrease in net sales described above. Gross profit margin decreased from 12.2% in 2000 to 11.1% in 2001 due to a more competitive pricing environment, and other market conditions. Our profit margins are also influenced by the relative mix of inbound, outbound and on-line Internet sales. Our gross margin may vary based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

Selling, general and administrative expenses decreased \$6.5 million, or 5.2%, to \$117.5 million in 2001 from \$124.0 million in 2000 and increased as a percentage of sales to 9.9% in 2001 from 8.6% in 2000. We expect that our selling, general and administrative expenses ("SG&A") may vary depending on changes in sales volume, as well as the levels of continued investments in key growth initiatives such as hiring more experienced outbound sales account managers, improving marketing programs, and deploying next generation Internet Web technology to support the sales organization.

Restructuring costs and other special charges totaling \$2.2 million, were recorded in the year 2001. These costs related to staff reductions of \$1.5 million, and \$0.7 million of costs associated with proposed acquisitions abandoned during the year.

A rollforward of restructuring costs and other special charges for the twelve months ended December 31, 2001 is shown below. There were no changes in estimates in the interim periods.

	Total Charges	Cash Payments	Liabilities at December 31, 2001
	----- (in thousands) -----		
Workforce Reduction.....	\$1,510	\$(1,085)	\$ 425
Cost Associated with Abandoned Acquisitions	694	(694)	0
	-----	-----	-----
	\$2,204	\$(1,779)	\$ 425
	=====	=====	=====

Income from operations decreased by \$40.8 million, or 78.2%, to \$11.4 million for the year ended December 31, 2001 from \$52.2 million for the comparable period in 2000. Income from operations as a percentage of net sales decreased from 3.6% in 2000 to 1.0% in 2001 for the reasons net sales decreased as discussed above.

Interest expense decreased by \$.9 million, or 42.9%, to \$1.2 million in 2001 from \$2.1 million in 2000. This decrease in interest expense was attributed to lower average borrowings outstanding in 2001 as compared to 2000 and to lower interest rates.

Our effective tax rate was 38% for both 2001 and 2000.

Net income decreased by \$24.3 million, or 77.1%, to \$7.2 million in 2001 from \$31.5 million in 2000, principally as a result of the decrease in income from operations.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net sales increased \$369.1 million, or 34.2%, to \$1,449.9 million in 2000 from \$1,080.8 million in 1999. The growth in net sales was attributable to (i) a continued expansion and increased productivity of our outbound telemarketing group, and (ii) an increased focus on enterprise server and networking product categories.

As of December 31, 2000, the number of account managers totaled 575, a 67% increase, compared to 345 account managers at the end of 1999. As a result, outbound sales increased \$394.3 million, or 55.9%, to \$1,099.9 million in 2000 from \$705.6 million in 1999. Enterprise networking product sales increased \$128.0 million, or 102.4%, to \$253.0 million for the year ended December 31, 2000 from \$125.0 million in 1999.

Gross profit increased \$46.9 million, or 36.3%, to \$176.2 million in 2000 from \$129.3 million in 1999. The increase in gross profit dollars was attributable to the increase in net sales described above. Gross profit margin increased from 12.0% in 1999 to 12.2% in 2000 due to a continuing focus on solution sales to business, government and educational customers and an increased focus on higher margin enterprise networking products cited above. Our gross margin may vary based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

Selling, general and administrative expenses increased \$32.6 million, or 35.7%, to \$124.0 million in 2000 from \$91.4 million in 1999 and increased as a percentage of sales to 8.6% in 2000 from 8.5% in 1999. This increase was attributable to increases in sales personnel, bad debt, and facility costs, and offset by a decrease in net advertising expense.

Income from operations increased by \$14.3 million, or 37.7%, to \$52.2 million for the year ended December 31, 2000 from \$37.9 million for the comparable period in 1999. Income from operations as a percentage of net sales increased from 3.5% in 1999 to 3.6% in 2000 for the reasons net sales increased as discussed above.

Interest expense increased by \$.7 million, or 50.0%, to \$2.1 million in 2000 from \$1.4 million in 1999 due to increased borrowings under our line of credit necessitated by our growth. Interest expense is offset by interest income from short-term investments.

Our effective tax rate was 38% for both 2000 and 1999.

Net income increased by \$8.8 million, or 38.8%, to \$31.5 million in 2000 from \$22.7 million in 1999, principally as a result of the increase in income from operations.

Liquidity and Capital Resources

We have historically financed our operations and capital expenditures through cash flow from operations and bank borrowings. We believe that funds generated from operations, together with available credit under our bank line of credit, will be sufficient to finance our working capital and capital expenditure requirements at least for the next twelve calendar months. Our ability to continue funding our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. If demand for information technology products continues to decline, our cash flows from operations may be substantially affected. See also those risks listed below under "Factors That May Affect Future Results and Financial Condition".

At December 31, 2001, we had cash and cash equivalents of \$35.6 million and working capital of \$120.9 million.

Net cash provided by operating activities was \$34.2 million in the year ended December 2001, compared to \$4.0 million used for operating activities and \$16.0 million provided by operating activities for the years ended December 31, 2000, and 1999, respectively. The primary factors historically affecting cash flows from operations are net income and changes in the levels of accounts receivable, inventories and accounts payable. Since accounts receivable and inventories have substantially decreased since December 31, 2000, cash provided by operating activities has increased commensurately.

At December 31, 2001, we had \$75.4 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence and will be financed by cash flows from operations or short-term borrowings under the line of credit. This amount includes \$6.4 million payable to two financial institutions under security agreements to facilitate the purchase of inventory. We believe we will be able to meet our obligations under our accounts payable with cash flows from operations and our existing line of credit.

Capital expenditures were \$6.1 million, \$12.6 million and \$7.7 million in the years ended December 31, 2001, 2000 and 1999, respectively. We expect capital expenditures, primarily for the purchase of computer hardware and software and other fixed assets, to be approximately \$6.8 million for the year ending December 31, 2002.

We have an unsecured credit agreement with a bank providing for short-term borrowings up to \$70 million, which bears interest at various rates ranging from the prime rate (4.75% at December 31, 2001) to prime less 1%, depending on the ratio of senior debt to EBITDA (earnings before interest, taxes, depreciation and amortization). The credit agreement includes various customary financial and operating covenants, including restrictions on the payment of dividends, none of which we believe significantly restricts our operations. The credit agreement matures on May 31, 2002 and we are currently renegotiating the credit agreement. We cannot provide assurances that we will be able to renegotiate the credit agreement on the same favorable terms as in the current credit agreement. No borrowings were outstanding at December 31, 2001.

Under the terms of the merger agreement we entered into with MoreDirect, we will pay MoreDirect's stockholders approximately \$21,000,000 at closing. The merger agreement contemplates an earn-out period of three years following the closing whereby if MoreDirect maintains certain earnings before income tax, or EBIT, levels, additional payments will be made to MoreDirect's stockholders. Under the merger agreement, earn-out payments are tied to EBIT levels targeted to grow at a 15% rate per year. The maximum payments we will make under the earn-out provisions of the merger agreement are \$67,106,000, assuming MoreDirect maintains 200% of targeted EBIT levels for all three years. If MoreDirect maintains less than 60% of targeted EBIT levels for all three years, no payment would be required under the earn-out provisions of the merger agreement. At any time during the earn-out period, we may "buy-out" the remaining earn-out payments for amounts which vary during the term of the earn-out. We will also escrow \$10,000,000 at closing to fund a portion of these contingent payments. We believe we will be able to meet our obligations to MoreDirect and its stockholders under the merger agreement.

Contractual Obligations

The following summarizes our contractual obligations at December 31, 2001 and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

December 31, 2001	Total	Less Than		
		1 Year	1 - 3 Years	After 3 Years
(in thousands)				
Contractual Obligations:				
Long-term debt.....	\$ 1,000	\$1,000	\$ -	\$ -
Capital lease obligation to affiliate.....	6,792	171	906	5,715
Non-cancelable operating lease obligations	11,710	5,584	5,759	367
Total Contractual Obligations.....	\$19,502	\$6,755	\$6,665	\$6,082

Related Parties

In November 1997, we entered into a fifteen-year lease for our corporate headquarters with an affiliated company, G&H Post, which is related to PC Connection through common ownership. The total lease is valued at approximately \$7.0 million, based upon an independent property appraisal obtained at the date of lease, and interest is calculated at an annual rate of 11%. The lease requires us to pay our proportionate share of real estate taxes and common area maintenance charges as additional rent and also to pay insurance premiums for the leased property. We have the option to renew the lease for two additional terms of five years each. The lease has been recorded as a capital lease in the financial statements.

We have other transactions with affiliate companies including G&H, G&H Post, En Technology, and PCTV, all related to PC Connection through common ownership. Such transactions are determined using the fair market values of such services or products.

	Year Ended		
	December 31,		
	2001	2000	1999
(in thousands)			
Revenue:			
Sales of various products.....	\$ 3	\$ 3	\$425
Sales of services to affiliated companies.....	148	300	332
Costs:			
Purchase of services from affiliated companies.	1	9	6

Recently Issued Financial Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations". SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. We do not believe that the adoption of SFAS 141 will have a significant impact on our financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which will be effective for PC Connection on January 1, 2002. SFAS 142 requires, among other things, the discontinuance of the amortization of goodwill and certain other identified intangibles. In addition, the statement includes provisions for the reassessment of the value and useful lives of existing recognized intangibles (including goodwill), reclassification of certain intangibles both in and out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill and other intangibles. We believe that the impact of the adoption of SFAS 142 will not be material to the balance sheet. The Company had recorded \$738 thousand in amortization relative to goodwill in 2001. This amortization will cease in 2002.

Inflation

We have historically offset any inflation in operating costs by a combination of increased productivity and price increases, where appropriate. We do not expect inflation to have a significant impact on our business in the future.

Factors That May Affect Future Results and Financial Condition

Our future results and financial condition are dependent on our ability to continue to successfully market, sell and distribute information technology products and services, including computers, hardware and software. Inherent in this process are a number of factors that we must successfully manage in order to achieve a favorable financial condition and favorable operating results. Potential risks and uncertainties that could affect our future financial condition and operating results include, without limitation, the following factors:

There has been a recent decrease in demand throughout the industry for the products we sell.

With the events of September 11, together with the general decline in the economy over the past year, the demand for personal computer products has decreased throughout the industry. This decrease adversely affected our sales and results of operation in 2001. If our net sales do not increase in proportion to our operating expenses or if we experience a decrease in net sales for an extended period of time, there would be a material adverse effect on our results of operations in future periods.

We have experienced rapid growth in recent years followed by a decline in sales in 2001 and there is no assurance that we will be able to regain such growth.

Our net sales grew from \$749.9 million for the year ended December 31, 1998 to \$1.44 billion for the year ended December 31, 2000. In the year ended December 31, 2001, our net sales declined to \$1.18 billion. Our growth in previous years placed increasing demands on our administrative, operational, financial and other resources. Our staffing levels and operating expenses increased substantially in recent years due to our sales forecasts. If our revenues continue to decline, we may not be able to reduce our staffing levels and operating expenses in a timely manner to meet our needs. Moreover, we can provide no assurance that we will be able to regain rapid growth in the near future.

We may also experience quarterly fluctuations and seasonality which could impact our business.

Several factors have caused our sales and results of operations to fluctuate and we expect these fluctuations to continue on a quarterly basis. Causes of these fluctuations include:

- . changes in the overall level of economic activity;
- . changes in the level of business investment in information technology products;
- . the condition of the personal computer industry in general;
- . shifts in customer demand for hardware and software products;
- . industry shipments of new products or upgrades;
- . the timing of new merchandise and catalog offerings;
- . fluctuations in response rates;
- . fluctuations in postage, paper, shipping and printing costs and in merchandise returns;
- . adverse weather conditions that affect response, distribution or shipping;
- . shifts in the timing of holidays;
- . changes in our product offerings; and
- . changes in consumer demand for information technology products.

We base our operating expenditures on sales forecasts. If revenues do not meet expectations in any given quarter, our operating results could suffer.

In addition, customer response rates for our catalogs and other marketing vehicles are subject to variations. The first and last quarters of the year generally have higher response rates while the two middle quarters typically have lower response rates.

We are exposed to inventory obsolescence due to the rapid technological changes occurring in the personal computer industry.

The market for personal computer products is characterized by rapid technological change and the frequent introduction of new products and product enhancements. Our success depends in large part on our ability to identify and market products that meet the needs of customers in that marketplace. In order to satisfy customer demand and to obtain favorable purchasing discounts, we have and may continue to carry increased inventory levels of certain products. By so doing, we are subject to the increased risk of inventory obsolescence. Also, in order to implement our business strategy, we intend to continue, among other things, to place larger than typical inventory stocking orders, and increase our participation in first-to-market purchase opportunities. We may also participate in end-of-life-cycle purchase opportunities and market products on a private-label basis, which would increase the risk of inventory obsolescence. In addition, we sometimes acquire special purchase products without return privileges. There can be no assurance that we will be able to avoid losses related to obsolete inventory. In addition, manufacturers are limiting return rights and are also taking steps to reduce their inventory exposure by supporting "build to order" programs authorizing distributors and resellers to assemble computer hardware under the manufacturers' brands. These trends reduce the costs to manufacturers and shift the burden of inventory risk to resellers like us which could negatively impact our business.

We acquire products for resale from a limited number of vendors; the loss of any one of these vendors could have a material adverse effect on our business.

We acquire products for resale both directly from manufacturers and indirectly through distributors and other sources. The five vendors supplying the greatest amount of goods to us constituted 57.7% and 54.4% of our total product purchases in the years ended December 31, 2001 and 2000, respectively. Among these five vendors, purchases from Ingram Micro, Inc. represented 24.7% and 25.6% of our total product purchases and purchases from Tech Data Corporation comprised 14.1% and 11.2% of our total product purchases in the years ended December 31, 2001 and 2000, respectively. No other vendor supplied more than 10% of our total product purchases in the year ended December 31, 2001. If we were unable to acquire products from Ingram Micro or Tech Data, we could experience a short-term disruption in the availability of products and such disruption could have a material adverse effect on our results of operations and cash flows.

Substantially all of our contracts and arrangements with our vendors that supply significant quantities of products are terminable by such vendors or us without notice or upon short notice. Most of our product vendors provide us with trade credit, of which the net amount outstanding at December 31, 2001 was \$75.4 million. Termination, interruption or contraction of relationships with our vendors, including a reduction in the level of trade credit provided to us, could have a material adverse effect on our financial position.

Some product manufacturers either do not permit us to sell the full line of their products or limit the number of product units available to direct marketers such as us. An element of our business strategy is to continue to increase our participation in first-to-market purchase opportunities. The availability of certain desired products, especially in the direct marketing channel, has been constrained in the past. We could experience a material adverse effect to our business if we are unable to source first-to-market purchase or similar opportunities, or if we face the reemergence of significant availability constraints.

We may experience a reduction in the incentive programs offered to us by our vendors.

Some product manufacturers and distributors provide us with incentives such as supplier reimbursements, payment discounts, price protection, rebates and other similar arrangements. The increasingly competitive computer hardware market has already resulted in the following:

- . reduction or elimination of some of these incentive programs;
- . more restrictive price protection and other terms; and
- . reduced advertising allowances and incentives, in some cases.

Most product manufacturers provide us with co-op advertising support and in exchange we cover their products in our catalogs. This support significantly defrays our catalog production expense. In the past, we have experienced a decrease in the level of co-op advertising support available to us from certain manufacturers. The level of co-op advertising support we receive from some manufacturers may further decline in the future. Such a decline could increase our selling, general and administrative expenses as a percentage of sales and have a material adverse effect on our cash flows.

We face many competitive risks.

The direct marketing industry and the computer products retail business, in particular, are highly competitive. We compete with consumer electronics and computer retail stores, including superstores. We also compete with other direct marketers of hardware and software and computer related products, including an increasing number of Internet retailers. Certain hardware and software vendors are selling their products directly through their own catalogs and over the Internet. We compete not only for customers, but also for co-op advertising support from personal computer product manufacturers. Some of our competitors have greater financial, marketing and larger catalog circulations and customer bases and other resources than we do. In addition, many of our competitors offer a wider range of products and services than we do and may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. Many current and potential competitors also have greater name recognition, engage in more extensive promotional activities and adopt more aggressive pricing policies than us. We expect competition to increase as retailers and direct marketers who have not traditionally sold computers and related products enter the industry.

We cannot assure you that we can continue to compete effectively against our current or future competitors. In addition, price is an important competitive factor in the personal computer hardware and software market and we cannot assure you that we will not face increased price competition. If we encounter new competition or fail to compete effectively against our competitors, our business may be harmed.

In addition, product resellers and direct marketers are combining operations or acquiring or merging with other resellers and direct marketers to increase efficiency. Moreover, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to enhance their products and services. Accordingly, it is possible that new competitors or alliances among competitors may emerge and acquire significant market share.

We face and will continue to face significant price competition.

Generally, pricing is very aggressive in the personal computer industry and we expect pricing pressures to continue. An increase in price competition could result in a reduction of our profit margins. There can be no assurance that we will be able to offset the effects of price reductions with an increase in the number of customers, higher sales, cost reductions or otherwise. Also, our sales of personal computer hardware products are generally producing lower profit margins than those associated with software products. Such pricing pressures could result in an erosion of our market share, reduced sales and reduced operating margins, any of which could have a material adverse effect on our business.

The methods of distributing personal computers and related products are changing and such changes may negatively impact us and our business.

The manner in which personal computers and related products are distributed and sold is changing, and new methods of distribution and sale, such as on-line shopping services, have emerged. Hardware and software manufacturers have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain manufacturers have instituted programs for the direct sales of large order quantities of hardware and software to certain major corporate accounts. These types of programs may continue to be developed and used by various manufacturers. Some of our vendors, including Apple, Compaq and IBM, currently sell some of their products directly to end users and have stated their intentions to increase the level of such direct sales. In addition, manufacturers may attempt to increase the volume of software products distributed electronically to end

users. An increase in the volume of products sold through or used by consumers of any of these competitive programs or distributed electronically to end users could have a material adverse effect on our results of operations.

We could experience system failures which would interfere with our ability to process orders.

We depend on the accuracy and proper use of our management information systems including our telephone system. Many of our key functions depend on the quality and effective utilization of the information generated by our management information systems, including:

- . our ability to manage inventory and accounts receivable collection;
- . our ability to purchase, sell and ship products efficiently and on a timely basis; and
- . our ability to maintain operations.

Interruptions could result from natural disasters as well as power loss, telecommunications failure and similar events.

Our management information systems require continual upgrades to most effectively manage our operations and customer database. Although we maintain some redundant systems, with full data backup, a substantial interruption in management information systems or in telephone communication systems would substantially hinder our ability to process customer orders and thus could have a material adverse effect on our business.

We rely on the continued development of electronic commerce and Internet infrastructure development.

We have had an increasing amount of sales made over the Internet in part because of the growing use and acceptance of the Internet by end-users. No one can be certain that acceptance and use of the Internet will continue to develop or that a sufficiently broad base of consumers will adopt and continue to use the Internet and other online services as a medium of commerce. Sales of computer products over the Internet do not currently represent a significant portion of overall computer product sales. Growth of our Internet sales is dependent on potential customers using the Internet in addition to traditional means of commerce to purchase products. We cannot accurately predict the rate at which they will do so.

Our success in growing our Internet business will depend in large part upon the development of an infrastructure for providing Internet access and services. If the number of Internet users or their use of Internet resources continues to grow rapidly, such growth may overwhelm the existing Internet infrastructure. Our ability to increase the speed with which we provide services to customers and to increase the scope of such services ultimately is limited by and reliant upon the speed and reliability of the networks operated by third parties and these networks may not continue to be developed.

We depend heavily on third party shippers to deliver our products to customers.

We ship approximately 56% of our products to customers by Airborne Freight Corporation D/B/A "Airborne Express", with the remainder being shipped by United Parcel Service of America, Inc. and other overnight delivery and surface services. A strike or other interruption in service by these shippers could adversely affect our ability to market or deliver products to customers on a timely basis.

We may experience potential increases in shipping, paper and postage costs, which may adversely affect our business if we are not able to pass such increases on to our customers.

Shipping costs are a significant expense in the operation of our business. Increases in postal or shipping rates and paper costs could significantly impact the cost of producing and mailing our catalogs and shipping customer orders. Postage prices and shipping rates increase periodically and we have no control over future increases. We have a long-term contract with Airborne Express whereby Airborne ships products to our customers. We believe that we have negotiated favorable shipping rates with Airborne. We generally invoice customers for shipping and handling charges. There can be no assurance that we will be able to pass on to our customers the full cost, including any future increases in the cost, of commercial delivery services such as Airborne.

We also incur substantial paper and postage costs related to our marketing activities, including producing and mailing our catalogs. Paper prices historically have been cyclical and we have experienced substantial increases in the past. Significant increases in postal or shipping rates and paper costs could adversely impact our business, financial condition and results of operations, particularly if we cannot pass on such increases to our customers or offset such increases by reducing other costs.

Privacy concerns with respect to list development and maintenance may materially adversely affect our business.

We mail catalogs and send electronic messages to names in our proprietary customer database and to potential customers whose names we obtain from rented or exchanged mailing lists. World-wide public concern regarding personal privacy has subjected the rental and use of customer mailing lists and other customer information to increased scrutiny. Any domestic or foreign legislation enacted limiting or prohibiting these practices could negatively affect our business.

We face many uncertainties relating to the collection of state sales or use tax.

We presently collect sales tax only on sales of products to residents of Ohio, Tennessee, Maryland, the District of Columbia, Massachusetts and Virginia. We began collecting sales tax in Massachusetts in January 2000. Taxable sales to customers located within Ohio, Tennessee, Maryland, the District of Columbia, Massachusetts and Virginia were approximately 7% of our net sales during the year ended December 31, 2001. Various states have sought to impose on direct marketers the burden of collecting state sales taxes on the sales of products shipped to their residents. In 1992, the United States Supreme Court affirmed its position that it is unconstitutional for a state to impose sales or use tax collection obligations on an out-of-state mail order company whose only contacts with the state are limited to the distribution of catalogs and other advertising materials through the mail and the subsequent delivery of purchased goods by United States mail or by interstate common carrier. However, legislation that would expand the ability of states to impose sales tax collection obligations on direct marketers has been introduced in Congress on many occasions. Due to its presence on various forms of electronic media and other factors, our contact with many states may exceed the contact involved in the Supreme Court case. We cannot predict the level of contact that is sufficient to permit a state to impose on us a sales tax collection obligation. If the Supreme Court changes its position or if legislation is passed to overturn the Supreme Court's decision, the imposition of a sales or use tax collection obligation on us in states to which we ship products would result in additional administrative expenses to us, could result in price increases to our customers, and could reduce demand for our product.

We are dependent on key personnel.

Our future performance will depend to a significant extent upon the efforts and abilities of our senior executives. The competition for qualified management personnel in the computer products industry is very intense, and the loss of service of one or more of these persons could have an adverse effect on our business. Our success and plans for future growth will also depend on our ability to hire, train and retain skilled personnel in all areas of our business, including sales account managers and technical support personnel. There can be no assurance that we will be able to attract, train and retain sufficient qualified personnel to achieve our business objectives.

We are controlled by two principal stockholders.

Patricia Gallup and David Hall, our two principal stockholders, beneficially own or control, in the aggregate, approximately 71% of the outstanding shares of our common stock. Because of their beneficial stock ownership, these stockholders can continue to elect the members of the Board of Directors and decide all matters requiring stockholder approval at a meeting or by a written consent in lieu of a meeting. Similarly, such stockholders can control decisions to adopt, amend or repeal our charter and our bylaws, or take other actions requiring the vote or consent of our stockholders and prevent a takeover of us by one or more third parties, or sell or otherwise transfer their stock to a third party, which could deprive our stockholders of a control premium that might otherwise be realized by them in connection with an acquisition of us. Such control may result in decisions

that are not in the best interest of our public stockholders. In connection with our initial public offering, the principal stockholders placed substantially all shares of common stock beneficially owned by them into a voting trust, pursuant to which they are required to agree as to the manner of voting such shares in order for the shares to be voted. Such provisions could discourage bids for our common stock at a premium as well as have a negative impact on the market price of our common stock.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

We invest cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, our unsecured credit agreement provides for borrowings which bear interest at variable rates based on the prime rate. We had no borrowings outstanding pursuant to the credit agreement as of December 31, 2001. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. Our credit agreement exposes earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. However, as noted above, there were no borrowings outstanding on the credit agreement at December 31, 2001 and the average outstanding borrowings during the year were not material. Accordingly, the change in earnings resulting from a hypothetical 10% increase or decrease in interest rates is not material.

Item 8. Consolidated Financial Statements and Supplementary Data

The information required by this Item is included in this Report beginning at page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information included under the captions "Information Concerning Directors, Nominees and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PC Connection's definitive Proxy Statement for our 2002 Annual Meeting of Stockholders to be held on May 23, 2002 (the "Proxy Statement") is incorporated herein by reference. We anticipate filing the Proxy Statement within 120 days after December 31, 2001. With the exception of the foregoing information and other information specifically incorporated by reference into this Form 10-K, the Proxy Statement is not being filed as a part hereof.

Item 11. Executive Compensation

The information under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information under the heading "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information under the heading "Certain Transactions and Relationships" in the Proxy Statement is incorporated herein by reference.

PART IV

Item 14. Exhibits, Consolidated Financial Statements, Schedule, and Reports on Form 8-K

(a) List of Documents Filed as Part of This Report:

(1) Consolidated Financial Statements

The consolidated financial statements listed below are included in this document.

Consolidated Financial Statements -----	Page References -----
Report of Management.....	F-2
Independent Auditors' Report.....	F-3
Consolidated Balance Sheets.....	F-4
Consolidated Statements of Income.....	F-5
Consolidated Statement of Changes in Stockholders' Equity	F-6
Consolidated Statements of Cash Flows.....	F-7
Notes to Consolidated Financial Statements.....	F-8

(2) Consolidated Financial Statement Schedule:

The following Consolidated Financial Statement Schedule, as set forth below, is filed with this report:

Schedule -----	Page Reference -----
Schedule II-Valuation and Qualifying Accounts	S-1

All other schedules have been omitted because they are either not applicable or the relevant information has already been disclosed in the financial statements.

(3) Supplementary Data

Not applicable.

(b) Reports on Form 8-K

Not applicable.

(c) Exhibits

The exhibits listed below are filed herewith or are incorporated herein by reference to other filings.

EXHIBIT INDEX

Exhibits

- *3.2 Amended and Restated Certificate of Incorporation of Registrant.
- *3.4 Bylaws of Registrant.
- *4.1 Form of specimen certificate for shares of Common Stock, \$0.01 par value per share, of the Registrant.
- *9.1 Form of 1998 PC Connection Voting Trust Agreement among the Registrant, Patricia Gallup individually and as a trustee, and David Hall individually and as trustee.
- *10.1 1993 Incentive and Non-Statutory Stock Option Plan, as amended.
- *10.2 1997 Stock Incentive Plan.
- *10.3 Lease between the Registrant and Miller-Valentine Partners, dated September 24, 1990, as amended, for property located at 2870 Old State Route 73, Wilmington, Ohio.

Exhibits

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- *10.4 Lease between the Registrant and Gallup & Hall partnership, dated May 1, 1997, for property located at 442 Marlboro Street, Keene, New Hampshire.
- *10.5 Lease between the Registrant and Gallup & Hall partnership, dated June 1, 1987, as amended, for property located in Marlow, New Hampshire.
- *10.6 Lease between the Registrant and Gallup & Hall partnership, dated July 22, 1998, for property located at 450 Marlboro Street, Keene, New Hampshire.
- *10.7 Amended and Restated Lease between the Registrant and G&H Post, LLC, dated December 29, 1997 for property located at Route 101A, Merrimack, New Hampshire.
- *10.8 Employment Agreement between the Registrant and Wayne L. Wilson, dated August 16, 1995.
- *10.9 Employment Agreement between the Registrant and Robert F. Wilkins, dated December 23, 1995.
- *10.10 Letter Agreement between the Registrant and Airborne Freight Corporation D/B/A "Airborne Express," dated April 30, 1990, as amended.
- *10.11 Agreement between the Registrant and Ingram Micro, Inc., dated October 30, 1997, as amended.
- *10.12 Employment Agreement, dated as of January 1, 1998, between the Registrant and Patricia Gallup.
- *10.13 Form of Registration Rights Agreement among the Registrant, Patricia Gallup, David Hall and the 1998 PC Connection Voting Trust.
- **10.14 Amendment No. 1 to Amended and Restated Lease between the Registrant and G&H Post, LLC, dated December 29, 1998 for property located at Route 101A, Merrimack, New Hampshire.
- ***10.15 Employment Agreement between the Registrant and John L. Bomba, dated March 28, 1997.
- ***10.16 Employment Agreement between the Registrant and Mark A. Gavin, dated February 5, 1998.
- ***10.17 Agreement for Wholesale Financing, dated as of March 25, 1998, between the Registrant and Deutsche Financial Services Corporation.
- ***10.18 Amendment to Agreement for Wholesale Financing, dated as of March 25, 1998, between the Registrant and Deutsche Financial Services Corporation.
- ***10.19 Amendment to Agreement for Wholesale Financing, dated as of November 5, 1999, between the Registrant and Deutsche Financial Services Corporation.
- ***10.20 Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000 between the Registrant and Deutsche Financial Services Corporation.
- ***10.21 Guaranty, dated as of February 25, 2000, entered into by PC Connection, Inc. in connection with the Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between the Registrant and Deutsche Financial Services Corporation.
- ***10.22 Agreement for Inventory Financing, dated as of August 17, 1999, between the Registrant and IBM Credit Corporation.
- ***10.23 Amendment to Agreement for Inventory Financing, dated as of February 25, 2000, between the Registrant and IBM Credit Corporation.
- ***10.24 Guaranty, dated as of February 25, 2000, entered into by PC Connection, Inc., PC Connection Sales of Massachusetts, Inc., Merrimack Services Corp. and ComTeq Federal, Inc., in connection with the Amendment to Agreement for Inventory Financing, dated as of February 25, 2000, between the Registrant and IBM Credit Corporation.
- ***10.25 Agreement for Wholesale Financing, dated as of October 12, 1993, between ComTeq Federal, Inc. and IBM Credit Corporation.
- ***10.26 Amendment to Agreement for Wholesale Financing, dated as of December 23, 1999, between ComTeq Federal, Inc. and IBM Credit Corporation.
- ***10.27 Amendment to Addendum to Agreement for Wholesale Financing, dated as of December 23, 1999, between ComTeq Federal, Inc. and IBM Credit Corporation.
- ***10.28 Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and IBM Credit Corporation.

Exhibits

- ***10.29 Guaranty, dated as of February 25, 2000, entered into by the Registrant, PC Connection, Inc., PC Connection Sales of Massachusetts, Inc. and Merrimack Services Corp., in connection with the Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and IBM Credit Corporation.
- ***10.30 Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and Deutsche Financial Services Corporation.
- ***10.31 Guaranty, dated as of February 25, 2000, entered into by PC Connection, Inc. in connection with the Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and Deutsche Financial Services Corporation.
- ***10.32 Assignment of Lease Agreements, dated as of December 13, 1999, between Micro Warehouse, Inc. (assignor) and the Registrant (assignee).
- ***10.33 Amended and Restated Credit Agreement, dated February 25, 2000, between PC Connection, Inc., the Lenders Party hereto and Citizens Bank of Massachusetts.
- ****10.34 Amendment, dated January 1, 1999, to the Lease Agreement between the Registrant and Gallup & Hall Partnership, dated June 1, 1987, as amended for property located in Marlow, New Hampshire.
- ****10.35 Lease between Merrimack Services Corporation and White Knight Realty Trust, dated October 19, 2000 for property located at 7 Route 101A, Amherst, New Hampshire.
- ****10.36 Amendment to Employment Agreement between the Registrant and Robert Wilkins dated December 23, 1995.
- ****10.37 Lease between Merrimack Services Corporation and Schleicher & Schuell, Inc., dated November 16, 2000 for property located at 10 Optical Avenue, Keene, New Hampshire.
- ****10.38 Lease between PC Connection Sales and Dover Mills L.P., dated May 1, 2000 for property located at 100 Main Street, Dover, New Hampshire.
- ****10.39 Lease between ComTeq Federal, Inc. and Rockville Office/Industrial Associates dated December 14, 1993 for property located at 7503 Standish Place, Rockville, Maryland.
- ****10.40 Amendment, dated November 1, 1996 to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates for property located in Rockville, Maryland.
- ****10.41 Amendment, dated March 31, 1998 to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates, dated November 1, 1996, as amended for property located in Rockville, Maryland.
- ****10.42 Amendment, dated August 31, 2000 to the Lease Agreement between ComTeq Federal, Inc. and Rockville Industrial Associates, dated March 31, 1998, as amended for property located in Rockville, Maryland.
- ****10.43 Amendment dated June 26, 2000 to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated July 31, 1998 for property located at 2840 Old State Route 73, Wilmington, Ohio.
- ****10.44 Lease between PC Connection, Inc. and The Hillsborough Group, dated January 5, 2000 for property located at 706 Route 101A, Merrimack, New Hampshire.
- *****10.45 Amendment, dated December 27, 2000 to the Amended and Restated Credit Agreement, dated February 25, 2000, between PC Connection, Inc., the Lender's Party hereto and Citizens Bank of Massachusetts.
- *****10.46 Amendment, dated May 4, 2001 to the Amended and Restated Credit Agreement, dated December 27, 2000, between PC Connection, Inc., the Lender's Party hereto and Citizens Bank of Massachusetts.
- *****10.47 Amendments, dated June 19, 2001 to the Assignment of Lease Agreements, dated as of December 13, 1999, between Micro Warehouse Inc. (assignor) and the Registrant (assignee).

Exhibits

- - - - -

- 10.48 Employment Agreement between the Registrant and Kenneth Koppel, dated June 25, 2001.
- 10.49 Amendment, dated August 22, 2001 to the Amended and Restated Credit Agreement, dated May 4, 2001, between PC Connection, Inc., the Lender's Party hereto and Citizens Bank of Massachusetts.
- 10.50(+) National Account Agreement between Airborne Express, Inc. and Merrimack Services Corporation d/b/a PC Connection Services, dated September 10, 2001.
- 10.51 Agreement and Plan of Merger, dated March 25, 2002, by and among PC Connection, Inc., Boca Acquisition Corp., MoreDirect, Inc. and the stockholders of MoreDirect, Inc. set forth on Schedule I thereto.
- 23.1 Consent of Deloitte & Touche LLP.

- - - - -

- * Incorporated by reference from the exhibits filed with the Company's registration statement (333-41171) on Form S-1 filed under the Securities Act of 1933.
- ** Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 31, 1999.
- *** Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K/A Amendment No. 1, File Number 0-23827, filed on April 4, 2000.
- **** Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, File Number 0-23827, filed on November 14, 2000.
- ***** Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2001.
- ***** Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, File Number 0-23827, filed on August 14, 2001.
- (+) Confidential treatment requested for this agreement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PC CONNECTION, INC.

Date: March 29, 2002

/s/ MARK A. GAVIN

By: _____
 Mark A Gavin
 Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name ----	Title -----	Date ----
/s/ JOSEPH BAUTE ----- Joseph Baute	Director	March 29, 2002
/s/ PETER J. BAXTER ----- Peter J. Baxter	Director	March 29, 2002
/s/ DAVID BEFFA-NEGRINI ----- David Beffa-Negrini	Director	March 29, 2002
/s/ PATRICIA GALLUP ----- Patricia Gallup	Chairman	March 29, 2002
/s/ MARK A. GAVIN ----- Mark A. Gavin	Chief Financial Officer (Principal Financial and Accounting Officer)	March 29, 2002
/s/ DAVID HALL ----- David Hall	Vice Chairman and Director	March 29, 2002
/s/ KENNETH KOPPEL ----- Kenneth Koppel	Chief Executive Officer	March 29, 2002
/s/ MARTIN C. MURRER ----- Martin C. Murrer	Director	March 29, 2002
/s/ WAYNE L. WILSON ----- Wayne L. Wilson	President and COO	March 29, 2002

PC CONNECTION, INC. AND SUBSIDIARIES
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REPORT OF MANAGEMENT

Responsibility for the integrity and objectivity of the financial information presented in this Annual Report on Form 10-K rests with PC Connection, Inc. and its subsidiaries ("the Company") management. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, applying certain estimates and judgments as required.

The Company maintains an effective internal control structure. It consists, in part, of an organization with clearly defined lines of responsibility and delegation of authority, comprehensive systems and control procedures. We believe this structure provides reasonable assurance that transactions are executed in accordance with management authorization and accounting principles generally accepted in the United States of America.

To assure the effective administration of internal control, we carefully select and train our employees, develop and disseminate written policies and procedures, provide appropriate communication channels and foster an environment conducive to the effective functioning of controls. We believe that it is essential for the Company to conduct its business affairs in accordance with the highest ethical standards.

Deloitte & Touche LLP, the independent auditing firm, is retained to audit the Company's consolidated financial statements. Its accompanying report is based on an audit conducted in accordance with auditing standards generally accepted in the United States of America.

The Audit Committee of the Board of Directors is composed solely of outside directors and is responsible for recommending to the Board of Directors the independent accounting firm to be retained for the coming year. The Audit Committee meets periodically and privately with the independent auditors, as well as with Company management, to review accounting, auditing, internal control structure and financial reporting matters.

Kenneth Koppel
Chief Executive Officer

Wayne L. Wilson
President and
Chief Operating
Officer

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
PC Connection, Inc.
Merrimack, New Hampshire

We have audited the accompanying consolidated balance sheets of PC Connection, Inc. and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PC Connection, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche LLP

Boston, Massachusetts
January 24, 2002
March 25, 2002 as to Note 15

PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except per share data)

	December 31,	
	2001	2000
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$ 35,605	\$ 7,363
Accounts receivable, net.....	117,461	139,644
Inventories - merchandise.....	48,003	54,679
Deferred income taxes.....	2,304	2,175
Income taxes receivable.....	1,312	4,882
Prepaid expenses and other current assets.....	3,013	3,064
	-----	-----
Total current assets.....	207,698	211,807
Property and equipment, net.....	27,472	28,665
Goodwill, net.....	8,807	9,509
Other assets.....	258	432
	-----	-----
Total Assets.....	\$244,235	\$250,413
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate.....	\$ 171	\$ 153
Current maturities of long-term debt.....	1,000	1,000
Accounts payable.....	75,399	86,216
Accrued expenses and other liabilities.....	10,272	12,769
	-----	-----
Total current liabilities.....	86,842	100,138
Long-term debt, less current maturities.....	--	1,000
Capital lease obligation to affiliate, less current maturities.....	6,621	6,792
Deferred income taxes.....	3,523	3,555
Other liabilities.....	73	241
	-----	-----
Total Liabilities.....	97,059	111,726
	-----	-----
Commitments and Contingencies (Note 11)		
Stockholders' Equity:		
Preferred Stock, \$.01 par value, 10,000 shares authorized, 0 issued and outstanding at December 31, 2001 and December 31, 2000.....	--	--
Common Stock, \$.01 par value, 100,000 shares authorized, 24,748 and 24,416 issued, 24,543 and 24,416 outstanding at December 31, 2001 and December 31, 2000, respectively.....	247	244
Additional paid-in capital.....	74,393	71,542
Retained earnings.....	74,073	66,901
Treasury stock at cost.....	(1,537)	--
	-----	-----
Total Stockholders' Equity.....	147,176	138,687
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$244,235	\$250,413
	=====	=====

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(amounts in thousands, except per share data)

	Years Ended December 31,		
	2001	2000	1999
Net sales.....	\$1,180,951	\$1,449,908	\$1,080,835
Cost of sales.....	1,049,799	1,273,687	951,489
Gross Profit.....	131,152	176,221	129,346
Selling, general and administrative expenses.....	117,508	123,972	91,405
Restructuring costs and other special charges.....	2,204	--	--
Income from operations.....	11,440	52,249	37,941
Interest expense.....	(1,179)	(2,086)	(1,392)
Other, net.....	1,307	589	116
Income before taxes.....	11,568	50,752	36,665
Income taxes.....	(4,396)	(19,289)	(13,935)
Net income.....	\$ 7,172	\$ 31,463	\$ 22,730
Earnings per common share:			
Basic.....	\$.29	\$ 1.31	\$.97
Diluted.....	\$.29	\$ 1.23	\$.94
Shares used in computation of earnings per common share:			
Basic.....	24,453	24,054	23,475
Diluted.....	24,947	25,572	24,167

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(amounts in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance, December 31, 1998.....	23,408	\$234	\$56,734	\$12,708	--	\$ --	\$ 69,676
Exercise of stock options, including income tax benefits.....	176	2	1,182	--	--	--	1,184
Issuance of stock under employee stock purchase plan.....	69	1	470	--	--	--	471
Compensation under nonstatutory stock option agreements.....	--	--	162	--	--	--	162
Net income and comprehensive income.....	--	--	--	22,730	--	--	22,730
Balance, December 31, 1999.....	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 and comprehensive income.....	--	--	--	31,463	--	--	31,463
Balance, December 31, 2000.....	24,416	244	71,542	66,901	--	--	138,687
Exercise of stock options, including income tax benefits.....	197	2	1,379	--	--	--	1,381
Issuance of stock under employee stock purchase plan.....	135	1	1,472	--	--	--	1,473
Net income and comprehensive income.....	--	--	--	7,172	--	--	7,172
Repurchase of common stock for Treasury....	--	--	--	--	(205)	(1,537)	(1,537)
Balance, December 31, 2001.....	24,748	\$247	\$74,393	\$74,073	(205)	\$(1,537)	\$147,176

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Years Ended December 31,		
	2001	2000	1999
Cash Flows from Operating Activities:			
Net income.....	\$ 7,172	\$ 31,463	\$ 22,730
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation and amortization.....	7,815	6,566	5,334
Deferred income taxes.....	(500)	1,540	2,153
Compensation under nonstatutory stock option agreements.....	--	51	162
Provision for doubtful accounts.....	10,680	9,868	6,821
(Gain)/loss on disposal of fixed assets.....	(174)	(13)	159
Changes in assets and liabilities:			
Accounts receivable.....	11,503	(49,607)	(42,795)
Inventories.....	6,676	9,669	(305)
Prepaid expenses and other current assets.....	3,621	(3,295)	(504)
Other non-current assets.....	139	(263)	--
Accounts payable.....	(10,817)	(19,077)	19,945
Income tax benefits from exercise of stock options.....	242	8,193	370
Accrued expenses and other liabilities.....	(2,184)	897	1,969
Net cash provided by (used for) operating activities.....	34,173	(4,008)	16,039
Cash Flows from Investing Activities:			
Purchases of property and equipment.....	(6,122)	(12,581)	(7,653)
Proceeds from sale of property and equipment.....	269	2,074	2,155
Payment for acquisitions, net of cash acquired.....	--	(2,158)	(3,198)
Net cash used for investing activities.....	(5,853)	(12,665)	(8,696)
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings.....	44,955	583,042	442,731
Repayment of short-term borrowings.....	(44,955)	(583,042)	(442,731)
Repayment of notes payable.....	(1,000)	(1,000)	--
Repayment of capital lease obligation to affiliate.....	(153)	(137)	(122)
Exercise of stock options.....	1,139	3,825	814
Issuance of stock under employee stock purchase plan.....	1,473	932	471
Purchase of treasury shares.....	(1,537)	--	--
Net cash provided by (used for) financing activities.....	(78)	3,620	1,163
Increase (decrease) in cash and cash equivalents.....	28,242	(13,053)	8,506
Cash and cash equivalents, beginning of year.....	7,363	20,416	11,910
Cash and cash equivalents, end of year.....	\$ 35,605	\$ 7,363	\$ 20,416
Supplemental Cash Flow Information:			
Interest paid.....	\$ 1,092	\$ 1,923	\$ 1,398
Income taxes paid.....	2,818	13,242	9,374
Non-Cash Activities:			
Issuance of notes payable in connection with acquisition of subsidiary	\$ --	\$ --	\$ 3,000

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(amounts in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PC Connection, Inc. and subsidiaries (the "Company") is a direct marketer of information technology products and solutions, including brand-name personal computers and related peripherals, software, and networking products to business, education, government, and consumer end users located primarily in the United States. The following is a summary of significant accounting policies.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of PC Connection, Inc. and subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the amounts reported in the accompanying consolidated financial statements. Actual results could differ from those estimates.

Revenue Recognition

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred and there is a reasonable assurance of collection of the sales proceeds. The Company generally obtains oral or written purchase authorizations from its customers for a specified amount of product at a specified price and considers delivery to have occurred at the point of shipment, except for sales to federal agencies, for which delivery occurs at destination. The Company provides its customers with a limited thirty day right of return only for defective merchandise. Revenue is recognized at delivery and a reserve for sales returns is recorded. The Company has demonstrated the ability to make reasonable and reliable estimates of product returns in accordance with SFAS No. 48, "Revenue Recognition When Right of Return Exists", based on significant historical experience.

All amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for the goods provided and have been classified as "net sales." Costs related to such shipping and handling billings are classified as "cost of sales."

Cash and Cash Equivalents

The Company considers all highly liquid short-term investments with original maturities of 90 days or less to be cash equivalents. The carrying value of the Company's cash equivalents approximates fair value.

Accounts Receivable

Ongoing credit evaluations of the Company's customers are performed, and credit limits are adjusted, based on payment history and customer credit-worthiness. An allowance for estimated doubtful accounts is maintained based on the Company's historical experience and the customer credit issues identified. Collections are monitored regularly, and the allowance is adjusted as necessary to recognize any changes in credit exposure.

Inventories--Merchandise

Inventories (all finished goods) consisting of software packages, computer systems and peripheral equipment, are stated at cost (determined under the first-in, first-out method) or market, whichever is lower. Inventory quantities on hand are reviewed regularly, and provisions are made for obsolete, slow moving and nonsalable inventory.

Advertising Costs and Revenues

Costs of producing and distributing catalogs are deferred and charged to expense over the period that each catalog remains the most current selling vehicle (generally one to two months) which approximate the period of probable benefits. Other advertising costs are expensed as incurred. Vendors have the ability to place advertisements in the catalogs for which the Company receives advertising allowances and incentives. These revenues are recognized on the same basis as the catalog costs and are offset against selling, general and administrative expense on the consolidated statements of income.

Advertising costs charged to expense were \$25,847, \$27,159, and \$31,487 for the years ended December 31, 2001, 2000 and 1999, respectively. Deferred advertising revenues at December 31, 2001, 2000 and 1999 exceeded deferred advertising costs by \$228, \$110, and \$423 at those respective dates.

Comprehensive Income

There are no other elements of comprehensive income in the three years ended December 31, 2001 apart from net income as reported.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization is provided for both financial and income tax reporting purposes over the estimated useful lives of the assets ranging from three to seven years. Computer software, including licenses and internally developed software is capitalized and amortized over lives ranging from three to five years. Depreciation is and has been provided using accelerated methods for property acquired prior to 1996 and on the straight-line method for property acquired thereafter. Leasehold improvements and facilities under capital leases are amortized over the terms of the related leases or their useful lives, whichever is shorter, whereas for income tax reporting purposes, they are amortized over the applicable tax lives. The Company periodically evaluates the carrying value of property and equipment based upon current and anticipated undiscounted cash flows, and recognizes an impairment when it is probable that such estimated future cash flows will be less than the asset carrying value.

Goodwill

Goodwill arises from certain purchase transactions and is amortized using the straight-line method over appropriate periods not exceeding 15 years. The amount charged to expense during 2001, 2000 and 1999 was \$738, \$704 and \$324, respectively. In certain situations, specifically those where the goodwill is associated with other assets that are subject to impairment losses, goodwill impairment is assessed relative to undiscounted cash flows. In other situations where goodwill is considered to be associated with the entire enterprise, impairment is assessed based on undiscounted enterprise cash flows. (See "Recently Issued Financial Accounting Pronouncements" below in Note 1 for a discussion of the Company's adoption of SFAS 142.)

Income Taxes

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized. "Income taxes" as presented on the Consolidated Statements of Income comprise the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Concentrations

Concentrations of credit risk with respect to trade account receivables are limited due to the large number of customers comprising the Company's customer base. Ongoing credit evaluations of customers' financial condition are performed.

During the years ended December 31, 2001 and 2000, product purchases from Ingram Micro, Inc., the Company's largest vendor, accounted for approximately 24.7% and 25.6%, respectively, of its total product purchases. Purchases from Tech Data Corporation comprised 14.1% and 11.2% of the Company's total purchases in the years ended December 31, 2001 and 2000, respectively. No other vendor accounted for more than 10% of the Company's total product purchases.

Earnings Per Share

Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock where such options have a dilutive effect on earnings per share.

The following table sets forth the computation of basic and diluted earnings per share:

	2001	2000	1999
	-----	-----	-----
Numerator:			
Net income.....	\$ 7,172	\$31,463	\$22,730
	=====	=====	=====
Denominator:			
Denominator for basic earnings per share.	24,453	24,054	23,475
Effect of dilutive securities:			
Employee stock options.....	494	1,518	692
	-----	-----	-----
Denominator for diluted earnings per share	24,947	25,572	24,167
	=====	=====	=====
Earnings per share:			
Basic.....	\$.29	\$ 1.31	\$.97
	=====	=====	=====
Diluted.....	\$.29	\$ 1.23	\$.94
	=====	=====	=====

The following options to purchase Common Stock were excluded from the computation of diluted earnings per share for years ended December 31, 2001, 2000, and 1999 because the effect of the options on the calculation would have been anti-dilutive:

	2001	2000	1999
	----	----	----
Anti-dilutive stock options	868	97	--

Stock-Based Compensation

Compensation expense associated with awards of stock or options to employees and directors is measured using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees". Disclosures concerning the impact of the utilization of the fair market value model prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation", appear in Note 8.

Restructuring Costs and Other Special Charges

On March 28, 2001, the Company announced the reduction of non-sales staff by approximately 125 individuals, or 7.5% of the Company's work force. The Company took a charge of approximately \$0.9 million in

the first quarter of 2001 to cover costs related to this staff reduction. This staff reduction was completed in early April 2001. The Company took a charge in the third quarter of 2001 to cover costs related to additional staff reductions of \$0.5 million and to cover \$0.7 million of costs associated with proposed acquisitions abandoned during the quarter. All third-quarter staff reductions were completed by September 30, 2001. The Company took a charge in the fourth quarter of 2001 to cover costs related to additional staff reductions of \$0.1 million. This is reflected under the caption, "restructuring costs and other special charges" on the consolidated statements of income for the year ended December 31, 2001. Liabilities at December 31, 2001 are included in accrued expenses and other liabilities on the balance sheet.

A rollforward of restructuring costs and other special charges for the twelve months ended December 31, 2001 is shown below. There were no changes in estimates in the interim periods.

	Total Charges	Cash Payments	Liabilities at December 31, 2001
Workforce Reduction.....	\$1,510	\$(1,085)	\$425
Cost Associated with Abandoned Acquisitions	694	(694)	0
	-----	-----	----
	\$2,204	\$(1,779)	\$425
	=====	=====	=====

Share Repurchase Authorization

The Company announced on March 28, 2001 that its Board of Directors authorized the spending of up to \$15.0 million to repurchase the Company's common stock. Share purchases will be made in the open market from time to time depending on market conditions. The Company has repurchased 205,000 shares for \$1.5 million as of December 31, 2001, which are reflected as treasury stock on the consolidated balance sheet.

Recently Issued Financial Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations." SFAS 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company does not believe that the adoption of SFAS 141 will have a significant impact on its financial statements.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets", which is effective for the Company on January 1, 2002. SFAS 142 requires, among other things, the discontinuance of the amortization of goodwill and certain other identified intangibles. In addition, the statement includes provisions for the reassessment of the value and useful lives of existing recognized intangibles (including goodwill), reclassification of certain intangibles both in and out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill and other intangibles. The Company believes the impact of adopting this statement will not be material to the balance sheet. The Company had recorded \$738 in amortization relative to goodwill in 2001. This amortization will cease in 2002 with the adoption of SFAS 142.

Reclassifications

Certain amounts in the 2000 and 1999 financial statements have been reclassified to conform to the 2001 presentation.

2. ACQUISITIONS

On January 4, 2000 the Company acquired the Merisel Americas Inc. call center in Marlborough, Massachusetts for approximately \$2,200 including acquisition costs. The Company acquired the assembled work force of Merisel, as well as its fixed assets; it also assumed its lease liabilities. The excess of the purchase price over the fair value of the assets acquired totaled approximately \$1,300. Such excess is currently amortized over a period of 15 years. (See Note 1 for a discussion of the Company's adoption of SFAS 142.)

On June 29, 1999, the Company acquired all of the outstanding stock of ComTeq Federal, Inc., a supplier of computer equipment and services to federal government agencies. The purchase price was \$8,300, including acquisition costs and consisted of cash of \$5,300 and promissory notes aggregating \$3,000. Total cash paid for ComTeq Federal Inc., net of cash acquired, was \$3,200. The transaction has been accounted for by the purchase method, and accordingly, the results of operations for the period from June 29, 1999 are included in the accompanying financial statements. The assets purchased and liabilities assumed have been recorded at their fair value at the date of acquisition. The excess of the purchase price, including acquisition costs, over the fair value of the liabilities assumed has been recorded as goodwill (approximately \$9,700). Goodwill is currently amortized over a period of 15 years. (See Note 1 for a discussion of the Company's adoption of SFAS 142). The promissory notes are unsecured, bear interest at the prime rate less 0.5% and are scheduled to be repaid over a three-year period. As of December 31, 2001, the short-term portion of the promissory notes was \$1,000 and the long-term portion was zero.

Pro Forma Information

The following unaudited pro forma information presents the consolidated results of operations of the Company as if the acquisition of ComTeq Federal, Inc. had taken place as of the beginning of each of the periods presented. Merisel results prior to the acquisition have not been included because of their immateriality.

	Year Ended December 31, 1999	

Revenues.....	\$1,105,664	
Net income.....	23,350	
Diluted earnings per share	.97	

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	December 31,	
	2001	2000
	-----	-----
Trade.....	\$115,739	\$134,682
Co-op advertising.....	6,242	4,243
Vendor returns, rebates and other	4,657	9,847
	-----	-----
Total.....	126,638	148,772
Less allowances for:		
Sales returns.....	(1,745)	(3,592)
Doubtful accounts.....	(7,432)	(5,536)
	-----	-----
Accounts receivable, net.....	\$117,461	\$139,644
	=====	=====

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	2001	2000
Facilities under capital lease.....	\$ 7,215	\$ 7,215
Leasehold improvements.....	5,406	4,730
Furniture and equipment.....	27,166	25,711
Computer software, including licenses and internally-developed software	22,050	18,645
Automobiles.....	269	266
Total.....	62,106	56,567
Less accumulated depreciation and amortization.....	(34,634)	(27,902)
Property and equipment, net.....	\$ 27,472	\$ 28,665

5. BANK BORROWINGS

At December 31, 2001, the Company had an unsecured credit agreement with a bank providing for short-term borrowings up to \$70,000 which bears interest at various rates ranging from the prime rate (4.75% at December 31, 2001) to prime rate less 1% depending on the ratio of senior debt to EBITDA (earnings before interest, taxes, depreciation and amortization). The credit agreement includes various customary financial and operating covenants, including minimum net worth requirements, minimum net income requirements and restrictions on the payment of dividends, none of which the Company believes significantly restricts the Company's operations. No amounts were outstanding under this facility at December 31, 2001. The credit agreement matures on May 31, 2002. The Company is currently renegotiating the credit agreement.

Certain information with respect to short-term borrowings were as follows:

	Weighted Average Interest Rate	Maximum Amount Outstanding	Average Amount Outstanding
Year ended December 31,			
2001.....	5.9%	\$ 6,267	\$ 197
2000.....	8.2	55,000	9,567
1999.....	7.4	29,543	4,497

6. TRADE CREDIT ARRANGEMENTS

At December 31, 2001 and 2000, the Company had security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow a collateralized position in inventory financed by the financial institutions up to an aggregated amount of \$60,000. The cost of such financing under these agreements is borne by the suppliers. At December 31, 2001 and 2000, accounts payable included \$6,374 and \$12,136, respectively owed to these financial institutions.

7. CAPITAL LEASE

In November 1997, the Company entered into a fifteen-year lease for its corporate headquarters with an affiliated company related to the Company through common ownership. The Company occupied the facility upon completion of construction in late November 1998, and the lease payments commenced in December 1998.

Annual lease payments under the terms of the lease, as amended, are approximately \$911 for the first five years of the lease, increasing to \$1,025 for years six through ten and \$1,139 for years eleven through fifteen. The lease requires the Company to pay its proportionate share of real estate taxes and common area maintenance charges as additional rent and also to pay insurance premiums for the leased property. The Company has the option to renew the lease for two additional terms of five years each. The lease has been recorded as a capital lease.

The net book value of capital lease assets was \$5,732 and \$6,213 as of December 31, 2001 and 2000, respectively.

Future aggregate minimum annual lease payments under this lease at December 31, 2001 are as follows:

Year Ending December 31 -----	Payments -----
2002.....	\$ 911
2003.....	921
2004.....	1,025
2005.....	1,025
2006.....	1,025
2007 and thereafter.....	7,663

Total minimum payments (excluding taxes, maintenance and insurance)	12,570
Less amount representing interest.....	(5,778)

Present value of minimum lease payments.....	6,792
Less current maturities.....	(171)

Long-term portion.....	\$ 6,621
	=====

8. STOCKHOLDERS' EQUITY

Preferred Stock

The Company's Amended and Restated Certificate of Incorporation (the "Restated Certificate") authorized the issuance of up to 10,000,000 shares of preferred stock, \$.01 par value per share (the "Preferred Stock"). Under the terms of the Restated Certificate, the Board is authorized, subject to any limitations prescribed by law, without stockholder approval, to issue by a unanimous vote such shares of Preferred Stock in one or more series. Each such series of Preferred Stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, redemption privileges and liquidation preferences, as shall be determined by the Board. There were no preferred shares outstanding at 2001 and 2000.

Incentive and Non-Statutory Stock Option Plans

In December 1993, the Board adopted and the stockholders approved the 1993 Incentive and Non-Statutory Stock Option Plan (the "1993 Plan"). Under the terms of the 1993 Plan, the Company is authorized to make awards of restricted stock and to grant incentive and non-statutory options to employees of, and consultants and advisors to, the Company to purchase shares of the Company's stock. A total of 1,686,245 shares of the Company's Common Stock was authorized for issuance upon exercise of options granted or awards made under the 1993 Plan. Options vest over varying periods up to four years and have contractual lives up to ten years.

In November 1997, the Board adopted and the stockholders approved the 1997 Stock Incentive Plan (the "1997 Plan"), which became effective on the closing of the Company's initial public offering in 1998. The 1997 Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, performance shares and awards of restricted stock and unrestricted stock. A total of 3,600,000 shares have been reserved for issuance under this Plan.

Information regarding the 1993 and 1997 Plans is as follows:

	Option Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding, December 31, 1998	2,408,355	7.02	
Granted.....	714,832	10.36	4.29
Exercised.....	(175,903)	4.62	
Forfeited.....	(124,674)	9.02	
Outstanding, December 31, 1999	2,822,610	7.93	
Granted.....	626,415	30.27	15.78
Exercised.....	(687,653)	5.56	
Forfeited.....	(111,864)	13.35	
Outstanding, December 31, 2000	2,649,508	13.61	
Granted.....	776,367	13.01	9.14
Exercised.....	(197,134)	5.78	
Forfeited.....	(334,929)	18.53	
Outstanding December 31, 2001.	2,893,812	13.40	

The following table summarizes the status of outstanding stock options as of December 31, 2001:

Exercise Price Range	Options Outstanding			Options Exercisable	
	No. of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	No. of Shares	Weighted Average Exercise Price
\$.51	315,693	2.32	\$.51	315,693	\$.51
\$3.81	117,244	4.34	3.81	117,244	3.81
\$8.92	274,845	7.73	8.92	117,496	8.92
\$9.98	5,000	8.96	9.98	1,250	9.98
\$10.10	57,500	9.80	10.10	0	0
\$10.81	151,641	9.21	10.81	0	0
\$10.99	21,250	9.63	10.99	0	0
\$11.67	925,298	5.87	11.67	727,563	11.67
\$11.83--\$16.83	546,936	9.31	14.10	8,248	13.01
\$18.33	196,891	8.06	18.33	49,272	18.33
\$20.33--\$34.83	122,500	8.38	23.01	32,500	22.85
\$51.81	141,014	8.54	51.81	36,287	51.81
\$52.75--\$62.19	18,000	8.64	53.54	4,500	53.54
\$.51--\$62.19	2,893,812	6.77	\$13.40	1,410,053	\$ 9.97

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation". Accordingly, compensation expense for options awarded under the Plans in 2001, 2000 and 1999, has been recognized using the intrinsic value method.

The fair value of options granted prior to the consummation of the Company's initial public offering in 1998 was estimated using the minimum value method and risk-free interest rates and expected option lives of 6% and seven years, respectively. The minimum value pricing method was designed to value stock options of non-public companies; accordingly, the minimum value method assumed zero volatility.

The Black-Scholes model was used to value options granted subsequent to the Offering using a volatility factor of 98.8%, 69%, and 50% for 2001, 2000 and 1999, respectively, estimated option lives of four years, and a risk-free interest rate of 4% for 2001, 6.4% for 2000, and 6% for 1999. Management believes that the assumptions used and the models applied to value the awards yield a reasonable estimate of the fair value of the grants made under the circumstances, given the alternatives under SFAS No. 123.

Compensation expense charged to operations using the intrinsic value method totaled \$0, \$51 and \$162 for the years ended December 31, 2001, 2000, and 1999, respectively. Had the Company recorded compensation expense using the fair value method under SFAS No. 123, pro forma net income and diluted net income per share for the years ended December 31 would have been as follows:

	2001	2000	1999
Net income, as reported.....	\$7,172	\$31,463	\$22,730
Net income, under SFAS No. 123.....	4,849	29,414	21,511
Diluted net income per share, as reported	.29	1.23	.94
Diluted net income, under SFAS No. 123...	.20	1.15	.89

1997 Employee Stock Purchase Plan

In November 1997, the Board adopted and the stockholders approved the 1997 Employee Stock Purchase Plan (the "Purchase Plan"), which became effective on February 1, 1999. The Purchase Plan authorizes the issuance of Common Stock to participating employees. Under the terms of the Purchase Plan, the purchase price is an amount equal to 85% of the fair market value per share of the Common Stock on either the first day or the last day of the offering period, whichever is lower. An aggregate of 337,500 shares of Common Stock has been reserved for issuance under the Purchase Plan, of which 279,152 shares were purchased.

9. INCOME TAXES

The 2001, 2000 and 1999 provision for income taxes consisted of the following:

	Years Ended December 31,		
	2001	2000	1999
Paid or currently payable:			
Federal.....	\$4,510	\$16,673	\$10,373
State.....	386	1,526	1,409
Total current.....	4,896	18,199	11,782
Deferred:			
Federal.....	(460)	1,004	1,983
State.....	(40)	86	170
Net deferred.....	(500)	1,090	2,153
Net provision.....	\$4,396	\$19,289	\$13,935

The components of the deferred taxes at December 31, 2001 and 2000 are as follows:

	2001	2000
Current:		
Provisions for doubtful accounts.....	\$ 2,824	\$ 2,104
Inventory costs capitalized for tax purposes.....	93	442
Inventory and sales returns reserves.....	586	887
Deductible expenses, primarily employee-benefit related	120	61
Other liabilities.....	(1,319)	(1,319)
Net deferred tax asset.....	2,304	2,175

	2001	2000
	-----	-----
Non-Current:		

Compensation under non-statutory stock option agreements.....	409	426
Excess of book basis over tax basis of property and equipment	(3,932)	(3,981)
	-----	-----
Net deferred tax liability.....	(3,523)	(3,555)
	-----	-----
Net deferred tax (liability).....	\$(1,219)	\$(1,380)
	=====	=====

The reconciliation of the Company's 2001, 2000 and 1999 income tax provision to the statutory federal tax rate is as follows:

	2001	2000	1999
	----	----	----
Statutory tax rate.....	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	3.0	2.5	2.6
Nondeductible expenses.....	0.1	0.4	0.2
Other--net.....	(0.1)	0.1	0.2
	-----	-----	-----
Effective income tax rate.....	38.0%	38.0%	38.0%
	====	====	====

10. EMPLOYEE BENEFIT PLAN

The Company has a contributory profit-sharing and employee savings plan covering all qualified employees. No contributions to the profit-sharing element of the plan were made by the Company in 2001, 2000 or 1999. The Company made matching contributions to the employee savings element of the plan of \$513, \$592 and \$317 in 2001, 2000 and 1999, respectively.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain office facilities from its principal stockholders under 20-year noncancelable operating leases. The lease agreement for one facility requires the Company to pay all real estate taxes and insurance premiums related thereto. The Company also leases several other buildings from its principal stockholders on a month-to-month basis.

In addition, the Company leases office, distribution facilities and equipment from unrelated parties with remaining terms of one to six years.

Future aggregate minimum annual lease payments under these leases at December 31, 2001 are as follows:

Year Ending December 31	Related Parties	Others	Total
-----	-----	-----	-----
2002.....	\$179	\$5,405	\$5,584
2003.....	149	3,134	3,283
2004.....	134	2,017	2,151
2005.....	134	191	325
2006.....	134	29	163
2007 and thereafter..	204	--	204

Total rent expense aggregated \$5,656, \$3,936 and \$1,470 for the years ended December 31, 2001, 2000 and 1999, respectively, under the terms of the leases described above. Such amounts included \$179, \$169 and \$189 in 2001, 2000 and 1999, respectively, paid to related parties.

Contingencies

The Company is subject to various legal proceedings and claims which have arisen during the ordinary course of business. In the opinion of management, the outcome of such matters is not expected to have a material effect on the Company's financial position, results of operations and cash flows.

12. OTHER RELATED PARTY TRANSACTIONS

As described in Notes 7 and 11, the Company has leased certain facilities from related parties. Other related-party transactions include the transactions summarized below. Related parties consist primarily of affiliated companies related to the Company through common ownership.

	Years Ended December 31		
	2001	2000	1999
Revenue:			
Sales of various products.....	\$ 3	\$ 3	\$ 1
Sales of services to affiliated companies.....	148	300	332
Costs:			
Purchase of services from affiliated companies	1	9	6

13. SEGMENT AND RELATED DISCLOSURES

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", requires that public companies report profits and losses and certain other information on its "reportable operating segments" in its annual and interim financial statements.

Management has determined that the Company has only one "reportable operating segment", given the financial information provided to and used by the "chief decision maker" of the Company to allocate resources and assess the Company's performance. However, senior management does monitor revenue by platform (PC vs Mac), sales channel (Inbound Telesales, Corporate Outbound, On-line Internet), and product mix, (Notebooks, Desktops and Servers, Storage Devices, Software, Networking Communications, Printers, Video and Monitors, Memory, Accessories and Other).

Net sales by platform, sales channel, and product mix are presented below:

	Years Ended December 31,		
	2001	2000	1999
Platform			
PC and Multi Platform....	\$1,061,700	\$1,300,453	\$ 919,543
Mac.....	119,251	149,455	161,292
Total.....	\$1,180,951	\$1,449,908	\$1,080,835
Sales Channel			
Corporate Outbound.....	\$ 937,846	\$1,099,879	\$ 705,580
Inbound Telesales.....	140,196	237,013	314,622
On-Line Internet.....	102,909	113,016	60,633
Total.....	\$1,180,951	\$1,449,908	\$1,080,835
Product Mix			
Notebooks.....	\$ 255,043	\$ 365,067	\$ 250,801
Desktop/Servers.....	145,951	211,505	165,325
Storage Devices.....	115,813	139,406	109,675
Software.....	158,486	149,982	129,484
Networking Communications	107,028	113,022	69,065
Printers.....	97,205	103,125	99,287
Video & Monitors.....	106,159	117,602	81,805
Memory.....	33,544	58,465	38,318
Accessories/Other.....	161,722	191,734	137,075
Total.....	\$1,180,951	\$1,449,908	\$1,080,835

Included in the product mix sales are enterprise networking product sales of \$234,000, \$253,000 and \$125,000 for the years ended December 2001, 2000 and 1999, respectively.

Substantially, all of the Company's net sales in 2001, 2000 and 1999 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 2% in 2001, 2000 and 1999. All of the Company's assets at December 31, 2001 and 2000 were located in the United States. The Company's primary target customers are small- to medium-size businesses ("SMBs") comprised of 20 to 1,000 employees, although its customers also include individual consumers, larger companies, federal, state and local governmental agencies and educational institutions. No single customer other than federal government accounted for more than 3% of total net sales in 2001. Net sales to the federal government in 2001, 2000 and 1999 were \$164.2 million, \$129.2 million and \$81.4 million, or 13.9%, 8.9% and 7.5% of total net sales, respectively.

14. SELECTED UNAUDITED QUARTERLY FINANCIAL RESULTS

The following table sets forth certain unaudited quarterly data of the Company for each of the quarters since January 2000. This information has been prepared on the same basis as the annual financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the selected quarterly information when read in conjunction with the annual financial statements and the notes thereto included elsewhere in this document. The quarterly operating results are not necessarily indicative of future results of operations. See "Factors That May Affect Future Results and Financial Condition--Historical Net Losses; Variability of Quarterly Results."

	Quarters Ended			
	March 31, 2001	June 30, 2001	Sept. 30, 2001	Dec. 31, 2001
Net sales.....	\$301,775	\$297,338	\$308,689	\$273,149
Cost of sales.....	266,450	264,486	275,454	243,409
Gross profit.....	35,325	32,852	33,235	29,740
Selling, general and administrative expenses.	30,463	30,653	29,038	27,354
Restructuring costs and other special charges	851	--	1,200	153
Income from operations.....	4,011	2,199	2,997	2,233
Interest expense.....	(377)	(277)	(264)	(261)
Other, net.....	288	396	357	266
Income before income taxes.....	3,922	2,318	3,090	2,238
Income tax provision.....	(1,489)	(882)	(1,174)	(851)
Net Income.....	\$ 2,433	\$ 1,436	\$ 1,916	\$ 1,387
Weighted average common shares outstanding:				
Basic.....	24,417	24,422	24,506	24,467
Diluted.....	24,931	24,994	24,921	24,931
Earnings per common share:				
Basic.....	\$.10	\$.06	\$.08	\$.06
Diluted.....	\$.10	\$.06	\$.08	\$.06

	Quarters Ended			
	March 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000
Net sales.....	\$333,799	\$366,090	\$404,876	\$345,143
Cost of sales.....	293,169	321,145	355,146	304,227
Gross profit.....	40,630	44,945	49,730	40,916
Selling, general and administrative expenses	29,007	30,903	32,872	31,190
Income from operations.....	11,623	14,042	16,858	9,726
Interest expense.....	(340)	(334)	(440)	(972)
Other, net.....	204	165	121	99
Income before income taxes.....	11,487	13,873	16,539	8,853
Income tax provision.....	(4,368)	(5,272)	(6,284)	(3,365)
Net Income.....	\$ 7,119	\$ 8,601	\$ 10,255	\$ 5,488
Weighted average common shares outstanding:				
Basic.....	23,676	23,926	24,243	24,364
Diluted.....	24,879	25,556	25,897	25,471
Earnings per common share:				
Basic.....	\$.30	\$.36	\$.42	\$.23
Diluted.....	\$.29	\$.34	\$.40	\$.22

15. SUBSEQUENT EVENT

On March 25, 2002, the Company signed a definitive agreement to acquire all of the outstanding stock of MoreDirect, Inc., an e-procurement supplier of information technology products for medium to large corporate and government organizations nationwide. Under the terms of the agreement, the Company will pay the shareholders of MoreDirect Inc., \$21,000 in cash at closing. In addition, PC Connection will pay additional cash to the MoreDirect shareholders based upon MoreDirect achieving targeted levels of annual earnings before income taxes through December 31, 2004. PC Connection will also escrow \$10,000 in cash at closing to fund a portion of these contingent payments. The transaction will be accounted for by the purchase method, and accordingly, that company's results of operations will be included in the Company's consolidated financial statements only for periods after the date of closing. For 2001, MoreDirect reported net sales and pre-tax income of \$219,000 and \$9,200, respectively.

PC CONNECTION, INC. AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

(amounts in thousands)

Description -----	Balance at Beginning of Period -----	Charged to Costs and Expenses -----	Deductions- Write-Offs -----	Balance at End of Period -----
Allowance for Sales Returns				
Year Ended December 31, 1999..	\$4,030	\$68,215	\$(68,528)	\$3,717
Year Ended December 31, 2000..	3,717	67,321	(67,446)	3,592
Year Ended December 31, 2001..	3,592	52,969	(54,816)	1,745
Allowance for Doubtful Accounts				
Year Ended December 31, 1999..	5,121	6,821/(1)/	(8,009)	3,933
Year Ended December 31, 2000..	3,933	9,868/(1)/	(8,265)	5,536
Year Ended December 31, 2001..	5,536	10,680/(1)/	(8,784)	7,432
Inventory Valuation Reserve				
Year Ended December 31, 1999..	2,590	5,350	(6,099)	1,841
Year Ended December 31, 2000..	1,841	5,651	(5,792)	1,700
Year Ended December 31, 2001..	1,700	5,808	(6,308)	1,200

 /(1)/ Additions to the provision for doubtful accounts include charges to advertising and cost of sales aggregating \$1,981, \$2,863 and \$13,037 for the years ended December 31, 2001, 2000, and 1999, respectively. Such allowances relate to receivables under cooperative arrangements with vendors.

PC CONNECTION, INC.
EMPLOYMENT AGREEMENT

In consideration of my employment and the compensation paid to me by PC Connection, Inc. (the "Corporation"), a Delaware corporation with its principal offices at 730 Milford Road, Route 101A, Merrimack, New Hampshire 03054-4631, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, I agree as follows:

1. Employment Status: The Corporation hereby employs me, and I hereby

accept employment, on the terms and conditions set forth in this Agreement. I understand that I am employed for an indefinite term and that either the Corporation or I may terminate the employment relationship at any time pursuant to Section 6 hereof. My first day of employment with the Corporation will be the date listed in Schedule A attached hereto.

2. Duties: I shall perform the duties of the job title listed on Schedule A

and such other or additional duties and responsibilities as may be assigned to me from time to time by the Chairman of the Corporation. As long as I am employed by the Corporation, I shall devote my skill, energy and best efforts to the faithful discharge of my duties as a full-time employee of the Corporation. My principal place of employment shall be at the Corporation's headquarters. I shall, when possible, perform my duties at such offices of the Corporation; however, I realize that it will, at times, be necessary to perform duties at my address on my equipment or on equipment provided by the Corporation. I agree that I will not without the Corporation's specific written consent engage in any employment, occupation or the provision of consulting services for a fee other than for the Corporation or for Affiliates of the Corporation for so long as I am employed by the Corporation. Nothing in this Agreement is intended to prevent me from performing or providing services for an Affiliate of the Corporation, as may be agreed upon from time to time by me and such Affiliate of the Corporation.

3. Compensation and Benefits: I shall receive the compensation, benefits

and other consideration described on Schedule A. Any payments or benefits in respect of any calendar year during which I am employed for less than the entire year shall, unless otherwise provided in the applicable plan or arrangement, be prorated in accordance with the number of days in such calendar year during which I am employed by the Corporation. I understand and agree that these employee benefit plans and fringe benefits may be amended, enlarged, or diminished by the Corporation in its discretion from time to time. The Corporation shall provide me with descriptions of such benefit plans as are in effect from time to time. The Corporation shall also reimburse me for reasonable out-of-pocket disbursements which I incur in connection with the performance of my duties hereunder, provided such expenses are accounted for in accordance with the policies and procedures established by the Corporation. All material paid for by the Corporation shall be the property of the Corporation.

4. Performance: I shall use my best efforts to perform my assigned duties

diligently, loyally, conscientiously, and with skill commensurate with my qualifications and experience, and shall comply with all rules, procedures and standards promulgated from time to time by the Corporation with regard to conduct of employees of the Corporation and with regard to access to and use of the Corporation's property, equipment, and facilities. Among such rules, procedures and standards are those governing ethical and other professional standards for dealing with

customers, government agencies, vendors, competitors, consultants, fellow employees, and the public-at-large; security provisions designated to protect the Corporation's property and the personal security of the Corporation's employees; and rules and procedures designed to protect Confidential Information, as defined below.

5. The Corporation's Management Rights: The Corporation retains its full

discretion to manage and direct its business affairs, including without limitation the choice of sources, methods and degree of financing and the adoption, amendment or modification of such research, development, production, customer service or marketing methods and approaches as it sees fit, notwithstanding any employee's individual interest in or expectation regarding a particular business program or product.

6. Termination:

(a) The employment relationship established by this Agreement may be terminated voluntarily by me at any time, without cause, on six months' prior written notice to the Corporation. The employment relationship established by this Agreement may be terminated by the Corporation at any time, without cause, effective upon delivery to me of written notice thereof.

(b) In the event that my employment hereunder is terminated by the Corporation or by any successor in interest to the Corporation without cause, and I am not, within thirty days following such termination, offered reasonably comparable employment by another entity that is owned or controlled by the Corporation or by any successor in interest to the Corporation, the Corporation shall provide the severance benefits set forth on Schedule A to this Agreement. The provision of severance benefits under this Agreement is subject to my full compliance with any and all of my obligations to the Corporation or any Affiliate of the Corporation, whether under this Agreement or otherwise. I agree that my acceptance of such severance benefits will be in full and complete satisfaction of any and all claims that I may have against the Corporation, its officers, directors, employees, agents, stockholders and Affiliates. I further agree that my receipt of such severance pay, may, at the election of the Corporation, be conditioned upon my execution of a general release of any and all such claims prior to my receipt of such severance pay.

(c) The Corporation may terminate my employment for cause at any time without prior notice. Cause shall mean failure to comply with rules, standards or procedures promulgated by the Corporation, negligent or substandard performance of my assigned responsibilities, breach of the terms of this Agreement, falsification of Corporation records or documents, or any act of dishonesty or moral turpitude or any other statement, act or omission to act made or taken in bad faith or contrary to the direction of the Board of Directors of the Corporation that materially and adversely affects the businesses of the Corporation or any Affiliate of the Corporation or the owners thereof. Termination of the employment relationship terminates any obligation on the part of the Corporation or any of its Affiliates to make any further payments hereunder, with the exception of any accrued but unpaid payments and any severance pay to which I may be entitled under the terms of this Agreement. Termination of employment by the Corporation shall be without prejudice to any other right or remedy to which the Corporation may be entitled, at law or in equity, under this Agreement or otherwise.

7. Agreement not to Compete with the Corporation

(a) As long as I am employed by the Corporation, or by any Affiliate of the Corporation, I shall not participate, directly or indirectly, in any capacity, in any business or activity that is in competition with the business of the Corporation or of any Affiliate of the Corporation. This section does not limit interpretation of the scope of my obligations as set forth in Section 2, above.

(b) For a period of three years after the termination of my employment with the Corporation or with any Affiliate of the Corporation, so long as such termination did not constitute or result from a substantial, material breach of this Agreement by the Corporation, I shall not, on my own behalf, or as owner, manager, stockholder, consultant, director, officer or employee of any business entity, participate in the development or provision of goods or services which are competitive with goods or services provided (or proposed to be provided) by the Corporation or by any Affiliate of the Corporation without the express written authorization of the Corporation's Directors. For purposes of this Agreement, a product or service shall be deemed competitive with the Corporation or an Affiliate of the Corporation if such product or service is offered as or could be used as an alternative to or substitute for any product or service now or hereafter offered by the Corporation or any Affiliate of the Corporation. Notwithstanding the foregoing, the Corporation agrees that I may trade in the stock of any company which is listed on a national or international stock exchange, so long as I do not acquire more than one percent (1%) of the total outstanding stock of any such company.

(c) For a period of three years after the termination of my employment with the Corporation or with any Affiliate of the Corporation, so long as such termination did not constitute or result from a substantial, material breach of this Agreement by the Corporation, I shall not solicit, induce, attempt to hire, or hire any employee of the Corporation, or of any Affiliate of the Corporation, (or any other person who was employed by the Corporation or by any Affiliate of the Corporation within one year prior to the termination of my employment), or assist in such hiring by any other person or business entity or encourage any such employee to terminate his or her employment with the Corporation or with any Affiliate of the Corporation.

(d) I shall not either during the term of my employment or at any time thereafter make any statements that are derogatory of the businesses of the Corporation or any Affiliate of the Corporation or the owners thereof, nor shall I make any statements, take any actions or omit to take any actions that will harm the reputation of the businesses of the Corporation or any Affiliate of the Corporation or the owners thereof.

(e) For purposes of this Agreement, an "Affiliate" of the Corporation shall be deemed to be any person, persons or entity that is controlled by, under common control with, or that controls the Corporation. The term "control" (including, with correlative meaning, the terms "controlled by" and "under common control with"), means the possession, directly or indirectly, of the power to direct or cause the direction of the actions, management or policies of a person, persons or entity, whether through the ownership of voting securities, by contract or otherwise.

8. Nondisclosure of Confidential Information:

While employed by the Corporation and thereafter, I shall not, other than pursuant to my employment by and for the benefit of the Corporation or as may be required by law, directly or indirectly, use any Confidential Information, copy any Confidential Information, remove any Confidential Information from the Corporation's premises, or disclose any Confidential Information to anyone outside of the Corporation or to anyone within the Corporation who has not been authorized to receive such information; provided, however, that in the event that I am required by law to disclose any Confidential Information, I shall reasonably notify the Chairman of the Corporation in writing, with a copy to the Corporation's legal counsel, of such requirement so as to provide the Corporation with a reasonable opportunity to object thereto and I shall take appropriate actions to protect any such Confidential Information, including, without limitation, obtaining a protective order or the like. On request, I promptly shall deliver to the Corporation all Confidential Information, whether written or contained in any other medium or computer hardware outside the Corporation's premises, which is in my possession or under my control, and shall return all such things promptly upon termination of my employment with the Corporation.

The term "Confidential Information" as used throughout this Agreement shall mean all data or information (and any tangible evidence, record or representation thereof), whether prepared, conceived or developed by or for the Corporation or received by the Corporation from an outside source, which is not generally known outside of the Corporation and which is maintained in confidence by the Corporation or by any Affiliate of the Corporation. Without limiting the generality of the foregoing, Confidential Information shall include:

(a) identities of customers, customer lists and other customer information, sales information, the name of any customer, employee, prospective customer or consultant, any unpublished sales or marketing material, plan or survey, oral or written agreements with vendors and distributors, pricing methods, purchasing and sales contacts, and sales figures;

(b) any idea, improvement, invention, innovation, development, technical data, design, formula, device, pattern, concept, computer program, computer screen layout, model, diagram, schematic, equipment, tool, training or service manual, product specification and other technical information, plan for a new or revised product or service, compilation of information or work in process, and any and all revisions and improvements relating to any of the foregoing;

(c) any business plan or opportunity; information regarding marketing methods and plans, and plans for expansion, diversification, sales, financing and the like, any product or development plan or specification, any business proposal, financial record or information, or business record, and all other non-public records and information relating to the present or proposed business of the Corporation; and

(d) any materials that reflect the information described in Sections 8(a) through 8(c); "materials" includes, without limitation, any documents, memoranda, notes, notebooks, reports, studies, programs, data, drawings, schematics, ideas, diskettes, files, slides, and any material generated by or for the Corporation, stored or contained in any medium.

Each item above is included, without limitation, as "Confidential Information" regardless of whether it is stored in any tangible medium, or the type of medium in which the information may be stored. Information is confidential independently of whether it was created individually or together with others, and independently of whether it was created during or outside of regular working hours, so long as the information was created for the benefit of the Corporation or by utilizing Corporation time, resources, materials or information.

Notwithstanding the foregoing, the term "Confidential Information" shall not apply to information which the Corporation has voluntarily disclosed to the public without restriction, or which is otherwise known to the public at large.

9. Rights in Documents and Work Product:

(a) I agree that all originals and all copies of all manuscripts, drawings, prints, manuals, diagrams, letters, notes, notebooks, reports, models, and all other materials containing, representing, evidencing, recording or constituting any Confidential Information (as defined above), however and whenever produced (whether by myself or others) (herein referred to as "Documents") shall be the property solely of the Corporation.

(b) I agree that all Work Product (as hereinafter defined) shall be the property solely of the Corporation. I agree that all Work Product shall constitute work made for hire under the copyright laws of the United States and I hereby assign, and to the extent that such assignment cannot be made at this time, agree to assign, to the Corporation any and all copyrights, patents, and other proprietary rights I may have in any Work Product, together with the right to file and/or own wholly without restrictions applications for United States and foreign patents, trademark registrations and copyright registrations and any patent, copyright or trademark registration issuing thereon. I agree to waive, and hereby waive, all moral rights or proprietary rights which I may have in or to any Work Product and, to the extent that such rights may not be waived, agree not to assert such rights against the Corporation or its licensees, successors or assigns.

(c) The term "Work Product" as used throughout this Agreement shall mean any and all discoveries, inventions, ideas, concepts, research, trademarks, service marks, good will, slogans, logos and other information, processes, products, techniques, methods and improvements, or parts thereof conceived, developed, or otherwise made by me alone or jointly with others, during the period of my employment with the Corporation or with any Affiliate of the Corporation or during the six month period next succeeding the termination of my employment with the Corporation or with any Affiliate of the Corporation, and in any way relating to the present or proposed products, programs or services of the Corporation or of any Affiliate of the Corporation, or to tasks assigned to me during the course of my employment, whether or not patentable or subject to copyright or trademark protection, whether or not reduced to tangible form or reduced to practice, whether or not made during my regular working hours, whether or not made on the Corporation's premises, whether or not Confidential Information and whether or not disclosed by me to the Corporation.

10. Obligation to Keep Records: I shall make and maintain adequate and

current written records of all Work Product and I shall disclose all Work Product promptly, fully and in

writing to the Corporation's Directors, or to such person as the Corporation's Directors may designate, immediately upon development of the same and at any time upon request.

11. Obligation to Cooperate: I will, at any time during my employment,

or after it terminates, at the request of the Corporation, execute all documents and perform all lawful acts which the Corporation considers necessary or advisable to secure its rights hereunder and to carry out the intent of this Agreement. It is understood that my reasonable out-of-pocket expenses of my assistance incurred at the request of the Corporation will be reimbursed by the Corporation.

12. Conflicts of Interest: I understand that my position with the

Corporation may require me to have contact with persons outside the Corporation such as vendors, contractors, and government agencies and officials. I agree to adhere strictly to the Corporation's policy against giving gifts of any kind to, or receiving gifts of any kind from, such persons. I also agree to comply with any additional guidelines and policies that the Corporation may adopt from time to time.

13. Return of Property

(a) Immediately upon the cessation of my employment by the Corporation, or earlier upon request of the Corporation, I shall return any Documents, manuals, specifications, drawings, blueprints, reproductions, sketches, notes, reports, proposals, business plans, computer programs, or copies of them, other documents or materials, tools, equipment or other property belonging to the Corporation, to any Affiliate of the Corporation or to their customers.

(b) If requested to do so by the Corporation, I agree to sign a Termination Certificate in which I state whether I have complied with the requirements of this section and in which I acknowledge that certain restrictions imposed upon me by this Agreement and by my other agreements with the Corporation continue after termination of employment. I understand, however, that my rights and obligations under this Agreement will continue even if I do not sign a Termination Certificate.

14. Exceptions to this Agreement: I hereby certify that my performance

of all the terms of this Agreement and as an employee of the Corporation does not and will not breach any agreement or other obligation owing to any other person, including, without limitation, obligations to keep in confidence proprietary information, knowledge or data acquired by me in confidence or in trust prior to my employment with the Corporation, and I will not disclose to the Corporation or induce the Corporation to use any confidential information or material belonging to any previous employer or others. I hereby certify that I have identified on Schedule B attached hereto any and all continuing obligations to any previous employers or other persons which require me not to disclose to the Corporation any information and that I have also identified on Schedule B any and all Confidential Information, Documents or Work Product which I claim as my own or otherwise intend to exclude from this Agreement. I understand and agree that once I have signed this Agreement I may not exclude any other Confidential Information, Document or Work Product from this Agreement without the written consent of the Chief Executive Officer of the Corporation.

15. General Provisions.

(a) Governing Law. This Agreement shall be governed by, and

construed and enforced in accordance with, the substantive laws of the state of New Hampshire, without regard to its principles of conflicts of laws, and shall be deemed to be effective as of the first day of my employment by the Corporation.

(b) Counterparts. This Agreement may be executed in counterparts.

(c) Entire Agreement. This Agreement contains the entire and only

agreement between me and the Corporation respecting the subject matter hereof, and no modification, renewal, extension, waiver or termination of this Agreement or any of the provisions herein contained shall be binding upon me or the Corporation unless made in writing and signed by me and an authorized officer of the Corporation. In the event of any inconsistency between this Agreement and any other contract between me and the Corporation, the provisions of this Agreement shall prevail. This Agreement is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder, except as otherwise expressly provided herein. I shall not assign any of my rights, or delegate any of my duties, hereunder without the prior written consent of the Chief Executive Officer of the Corporation.

(d) Waiver of Rights, Cumulative Rights. The waiver by either party

of a breach of any provision of this Agreement shall not operate as a waiver of any subsequent breach. No failure on the part of any party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or remedy by such party preclude any other right or remedy. All rights and remedies hereunder are cumulative and are in addition to all other rights and remedies provided by law, agreement or otherwise.

(e) Survival. My obligations under this Agreement shall survive the

termination of my employment with the Corporation regardless of the manner of or reasons, if any, for such termination, and regardless of whether such termination constitutes a breach of this Agreement or of any other agreement I have with the Corporation. My obligations under this Agreement shall be binding upon my heirs, executors and administrators, and the provisions of this Agreement shall inure to the benefit of and be binding on the successors and assigns of the Corporation.

(f) Severability. If the scope of any provision contained herein is

too broad to permit enforcement of such provision to its full extent, then such provision shall be enforced to the maximum extent permitted by law, and I hereby consent and agree that such scope may be judicially modified in any proceeding brought with respect to the enforcement of such provision. Without limiting the generality of the foregoing, in the event that any provision of this Agreement shall be determined to be unenforceable by reason of its extension for too great a period of time or over too large a geographic area or over too great a range of activities, it shall be interpreted to extend only over the maximum period of time, geographic area or range of activities as to which it may be enforceable. Except as otherwise provided in the preceding two sentences, if any provision of this Agreement shall be construed to be illegal or invalid, the legality or validity of any other provision hereof shall not be affected thereby, and any illegal or

invalid provision of this Agreement shall be severable, and all other provisions shall remain in full force and effect.

(g) Remedies. I recognize that money damages alone would not

adequately compensate the Corporation in the event of my breach of this Agreement, and I therefore agree that, in addition to all other remedies available to the Corporation at law or in equity, the Corporation shall be entitled to injunctive relief for the enforcement hereof. Failure by the Corporation to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such terms, covenants or conditions.

(h) Arbitration. Any dispute arising under or in connection with

this Agreement that is not first resolved by the parties to such dispute or controversy shall, at the election of me or the Corporation, be determined and settled exclusively by an arbitrator in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect: provided, however, that in no event shall the election of an arbitrator pursuant to this sentence preclude either party hereto from seeking injunctive relief in any court of law pending the outcome of arbitration. The arbitrator shall be selected pursuant to such Rules. The place of arbitration shall be Boston, Massachusetts or Marlow, New Hampshire, at the election of the Corporation. An award rendered in such arbitration shall be final and binding on the parties and judgment may be entered on the arbitrator's award in any court having jurisdiction. The existence of the arbitration proceeding and the outcome thereof, including the amount of any award shall be kept confidential and not publicly disclosed by any party to this Agreement except for such disclosure as may be required by law.

(i) References and Titles. A reference to a Section shall mean a

Section in this Agreement unless otherwise expressly stated. The titles and headings herein are for reference purposes only and shall not in any manner limit the construction of this Agreement which shall be considered as a whole.

(j) Effective Date. This Agreement shall be deemed to be effective

as of the first day of my employment by the Corporation.

(k) Seal. This Agreement is executed under seal.

BEFORE SIGNING, I ACKNOWLEDGE THAT I HAVE READ THIS AGREEMENT, THAT I AGREE TO ALL OF ITS TERMS, AND THAT THIS AGREEMENT SUPERSEDES ANY PRIOR AGREEMENT ON THE SAME SUBJECT. I FURTHER ACKNOWLEDGE THAT I HAVE BEEN GIVEN A COPY OF THIS AGREEMENT, AND HAVE HAD AN OPPORTUNITY TO DISCUSS ANY QUESTIONS WITH THE CORPORATION'S PERSONNEL MANAGER AND LEGAL COUNSEL AND WITH INDEPENDENT COUNSEL OF MY CHOICE.

ACCEPTED AND DATED June 25, 2001:

PC CONNECTION, INC.

EMPLOYEE:

By:/s/ Patricia Gallup

/s/ Kenneth Koppel

Schedule A
To
Employment Agreement

Name: Kenneth Koppel

Job Title: Executive Vice Chairman and CEO

Starting Date: On or about June 26, 2001

Base Salary: \$425,000 per annum, payable semi-monthly in arrears

Stock Options You shall receive stock options for 400,000 shares of Common Stock of the Corporation at an exercise price equal to the price quoted for such shares of the Corporation as of the close of business on the date on which such options are issued to you. The said options shall vest over a four year period, with 25% vesting on each anniversary of this Agreement; provided, however, that in the event of a termination other than for cause the options that would otherwise have vested at the end of the then-current year shall be accelerated and vest as of the date of termination.

Bonus: You shall be entitled to such performance-based bonus or bonuses as the Chairman, acting under the authority of the Board of Directors, may award in their discretion.

Benefits: You shall be entitled to benefits that are equal to the benefits available to other senior executives of the Corporation.

Severance: Severance benefits shall be equal to one year's base compensation as of the date of termination of employment provided that the termination is not for cause. In addition, you shall be entitled to such bonus as the Chairman, acting under the authority of the Board of Directors, may award in their discretion based on performance to the date of such termination. The said benefits shall be payable quarterly, in arrears.

Schedule B
To
Employment Agreement

EXCEPTIONS

Name: Kenneth Koppel

Job Title: Executive Vice Chairman and CEO

Description of Prior Commitments and Agreements:

Description of Excluded Confidential Information, Documents, and Work Product:

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THIRD AMENDMENT TO
AMENDED AND RESTATED LOAN AGREEMENT

Dated as of August 22, 2001

Among

PC CONNECTION, INC.,
the Borrower

and

CITIZENS BANK OF MASSACHUSETTS,
as Agent

and

THE LENDERS PARTIES HERETO

=====

THIRD AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT

This THIRD AMENDMENT TO AMENDED AND RESTATED LOAN AGREEMENT is entered into as of August 22, 2001 by and among PC CONNECTION, INC., a Delaware corporation (the "Borrower"), CITIZENS BANK OF MASSACHUSETTS, CITIZENS BANK NEW HAMPSHIRE, and FLEET NATIONAL BANK (successor by merger to Fleet Bank - NH) (together, the "Lenders" and each, a "Lender") and CITIZENS BANK OF MASSACHUSETTS as Agent (the "Agent").

Recitals

The Borrower, the Lenders and the Agent are parties to an Amended and Restated Loan Agreement dated as of February 25, 2000, as amended (the "Loan Agreement"). The Borrower, the Lenders and the Agent desire to amend the Loan Agreement as set forth below. All capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Loan Agreement.

NOW, THEREFORE, subject to the satisfaction of the conditions to effectiveness specified in Article 3, the Borrower, the Lenders and the Agent hereby amend the Loan Agreement as follows:

Section 1. Minimum Consolidated Net Income. Section 7.2 of the Loan

Agreement is hereby deleted in its entirety and replaced as follows:

Section 7.2. Minimum Consolidated Net Income. As of each date indicated

below, for the twelve months ending on that date, the Borrower and its Subsidiaries shall maintain the Consolidated Net Income indicated:

Date	Minimum Net Income
----	-----
June 30, 2001	\$19,000,000
September 30, 2001	\$ 7,000,000
December 31, 2001	\$ 5,000,000
March 31, 2002	\$ 5,000,000
Thereafter	\$ 5,000,000

Section 2. Miscellaneous.

- (a) The Borrower agrees that each of the Loan Documents shall remain in full force and effect after giving effect to this Third Amendment.
- (b) This Third Amendment represents the entire agreement among the parties hereto relating to this Third Amendment, and supersedes all prior understandings and agreements among the parties relating to the subject matter of this Third Amendment.

- (c) The Borrower agrees to pay to the Agent at the time of execution of this Third Agreement an amendment fee in the amount of \$35,000, to be distributed by the Agent to the Lenders pro rata according to each Lender's Commitment Percentage.
- (d) The Borrower agrees to pay on demand all of the Agent's reasonable expenses in preparing, executing and delivering this Third Amendment, and all related instruments and documents, including, without limitation, the reasonable fees and out-of-pocket expenses of the Agent's special counsel.
- (e) The Borrower hereby confirms to the Agent that the representations and warranties of the Borrower set forth in Article 5 of the Loan Agreement (as amended and supplemented hereby) are true and correct as of the date hereof, as if set forth herein in full.
- (f) The Borrower has reviewed the provisions of this Third Amendment and all documents executed in connection therewith or pursuant thereto or incident or collateral hereto or thereto from time to time and there is no Event of Default thereunder, and no condition which, with the passage of time or giving of notice or both, would constitute an Event of Default thereunder.
- (g) The Borrower represents and warrants that the execution, delivery or performance by the Borrower of any of the obligations contained in this Third Amendment or in any Loan Document do not require the consent, approval or authorization of any person or governmental authority or any action by or on account of with respect to any person or governmental authority.
- (h) This Third Amendment shall be a Loan Document and shall be governed by and construed and enforced under the laws of The Commonwealth of Massachusetts without regard to principles relating to choice of law.

[END OF TEXT]

IN WITNESS WHEREOF, the Borrower and the Lenders have caused this Third Amendment to Amended and Restated Loan Agreement to be executed by their duly authorized officers as of the date first set forth above.

PC CONNECTION, INC.

By: /s/ Jack L. Ferguson

Name: Jack L. Ferguson
Title: Treasurer

CITIZENS BANK OF MASSACHUSETTS, as Agent

By: /s/ Michael St. Jean

Name: Michael St. Jean
Title: Vice President

CITIZENS BANK OF MASSACHUSETTS, as Lender

By: /s/ Michael St. Jean

Name: Michael St. Jean
Title: Vice President

28 State Street
13th Floor
Boston, MA 02109
Telecopier No:
Attention:

CITIZENS BANK NEW HAMPSHIRE

By: /s/ Gary Inamorati

Name: Gary Inamorati
Title: Vice President

875 Elm Street
Manchester, NH 03101
Telecopier No: 603-594-7504
Attention: Pat Bonner

FLEET NATIONAL BANK (as successor by
merger to Fleet Bank - NH)

By: /s/ Kenneth R. Sheldon

Name: Kenneth R. Sheldon
Title: Vice President

1155 Elm Street
Manchester, NH 03101
Telecopier No:
Attention:

SCHEDULE 2

Ratio of Consolidated Senior Debt to Consolidated EBITDA	Applicable Prime Rate Margin	Applicable LIBOR Rate Margin
Greater than or equal to 2.0x	0%	2.00%
Greater than or equal to 1.5x but less than 2.0x	(0.25%)	1.75%
Greater than or equal to 1.0x but less than 1.5x	(0.50%)	1.50%
Greater than or equal to 0.5x but less than 1.0x	(0.75%)	1.25%
Less than 0.5x	(1.00%)	1.00%

The ratio of Consolidated Senior Debt to Consolidated EBITDA shall be determined by taking the daily average Consolidated Senior Debt at the end of each fiscal quarter and dividing it by historical rolling twelve-month Consolidated EBITDA. The initial ratio of Consolidated Senior Debt to Consolidated EBITDA (the "Ratio") will be determined based on first quarter of fiscal year 1999 financial statements; thereafter the Ratio shall be determined three (3) Business Days after the date on which the Agent receives financial statements pursuant to Sections 6.1(b) and 6.2 and a certificate from the Chief Financial Officer of the Borrower demonstrating the Ratio. If the Borrower has not submitted to the Agent the information described above as and when required under Sections 6.1(b) and 6.2, as the case may be, the Applicable Margin shall be determined by the Agent in its discretion for so long as such information has not been received by the Agent. The Applicable Margin shall be adjusted, if applicable, as of the first day of the month following the date of determination described in the two preceding sentences. In all circumstance, with respect to determination of the Applicable Margin, the Applicable Margin will be adjusted retroactively to the beginning of the applicable quarter.

Confidential Materials omitted and filed
separately with the Securities and Exchange
Commission. Asterisks denote omissions.

Exhibit 10.50

NATIONAL ACCOUNT AGREEMENT

BETWEEN

AIRBORNE EXPRESS, INC.

AND

MERRIMACK SERVICES CORPORATION

d/b/a

P C CONNECTION SERVICES

THIS AGREEMENT made as of the 10 day, of September 2001 YEAR, by and between Airborne Express, Inc. (hereinafter designated as "CARRIER"), and ,Merrimack Services Corporation (hereinafter designated as "SENDER").

W I T N E S S E T H

WHEREAS, CARRIER is in the air freight forwarding, air express and ground transportation business and is willing and able to provide transportation services to SENDER; and

WHEREAS, SENDER has a need and desire to use said services of CARRIER;

NOW, THEREFORE, in consideration of the mutual premises and covenants hereinafter set forth, the parties agree as follows:

ARTICLE 1. SCOPE

This Agreement covers the transportation of shipments on behalf of-SENDER by CARRIER, whether acting as a freight forwarder, a direct air carrier or a motor carrier. CARRIER shall be responsible for the transportation of each shipment from the point of origin at which the shipment is tendered to it to the delivery to the receiver at point of destination. This Agreement includes shipments by those subsidiaries of SENDER which are designated from time to time by an addendum to this Agreement in the form attached hereto as Schedule A and executed by the parties.

ARTICLE 2. EFFECTIVE DATE AND DURATION OF AGREEMENT

This Agreement shall commence upon the date first written above and shall remain in force and effect until September 10, 2003 unless terminated sooner by either party in accordance with Article 18 of this Agreement.

ARTICLE 3. TENDER AND TRANSPORTATION OF GOODS

CARRIER shall receive from SENDER such shipments as may be tendered from time to time for transportation. CARRIER shall make all reasonable effort to deliver on a timely basis.

ARTICLE 4. CARRIER REQUIREMENTS TO PROVIDE SERVICE

For the purpose of providing the transportation services described in this Agreement, CARRIER, at its cost and expense, shall provide, furnish and/or operate

equipment and control systems and shall obtain all necessary licenses to operate the same and/or furnish such services, and shall bear all costs necessary for the proper performance of the transportation services herein provided.

ARTICLE 5. COMPENSATION AND RATES

SENDER shall pay to CARRIER as compensation for the services rendered by CARRIER in accordance with the rates and charges set forth in the schedules and supplements thereto attached to this Agreement. Each schedule or supplement shall be executed by the parties, and upon execution, shall become a part of this Agreement. Schedules may only be amended in writing by both parties. The rates set forth in the attached Schedule (B) reflect a discount for volume, based upon a minimum monthly amount of Qualifier of [**] dollars (\$[**]) domestic net freight charges tendered by SENDER, calculated at CARRIER's published net rates in effect at the time of the shipments and are in effect from September 10, 2001 until September 10, 2003. If SENDER does not maintain its minimum volume requirement, CARRIER may adjust the rates or terminate this Agreement with 60 days notice. Agreed upon rates and charges will be at least as favorable as the rates and charges of other customers in like industry, purchasing similar services with similar volumes and similar shipping characteristics.

(A) Incentive Program: SENDER and CARRIER agree that the incentive programs set forth in this agreement are applicable providing SENDER meets and maintains volume requirements; CARRIER will reduce air domestic rates by [**]% once

SENDER reaches [**] ground delivery service shipments per month, and will continue to receive [**]% discount on domestic air rates providing shipments for ground delivery service are at [**] shipments per month by April 30, 2002; there will be a quarterly refund of [**]%, for the first contract year of net domestic revenue if total revenue of all products exceeds [**] dollars (\$[**]) and [**]%, the second contract year, if revenue for all products exceeds [**] dollars (\$[**]).

At any time during the term of this Agreement in the event of an increase in the cost of fuel, CARRIER reserves the right to increase its rates to include such additional costs. Rates and charges in Schedule B do not include any fuel surcharge, which may be in effect at the time of shipment. Carrier will refund [**]% of fuel surcharges if the revenue for domestic net freight charges exceeds [**] dollars ([**]).

ARTICLE 6. INVOICING

CARRIER will submit invoices to SENDER on a weekly basis for services provided. Payment is due in CARRIER's Seattle Corporate Office on or before the [**] day from date of original billing. In the event there exists a bona fide dispute regarding amounts due on specific invoices, SENDER shall pay the undisputed items and shall promptly report the disputed items to CARRIER. SENDER shall pay the amount mutually agreed to be due on any disputed invoices within [**] days after resolution of the dispute.

SENDER agrees to provide a list of accounts, including complete name and address, to be covered by this Agreement. CARRIER must be notified in writing of any

changes and/or additions to the address listing at least [**] business days prior to shipment activity to ensure assignment of customer number and appropriate coding. SENDER's Airborne-assigned customer number must be used on the shipping document as the bill-to party in order for the attached rates to apply and revenue credit to be counted.

ARTICLE 7. CARRIER INDEMNIFICATION

CARRIER shall indemnify and hold harmless SENDER from any and all claims for death of or injury to persons or property (other than shipments) to the extent arising out of CARRIER's negligent or willful acts or omissions of CARRIER's officers, employees and agents in the transportation of the goods of SENDER.

CARRIER shall maintain such insurance as is required by law, rules and regulations of all governmental bodies and agencies. CARRIER shall not be liable for any loss or damage caused by or resulting from the willful or negligent act(s) or omission(s) of SENDER, its officers, agents or employees.

ARTICLE 8. CARRIER RESPONSIBILITY

(A) CARRIER shall be responsible for all state, federal and local taxes imposed upon or arising out of the transportation services provided hereunder.

(B) CARRIER shall at all times comply with all applicable federal, state and local laws and the regulations of the respective regulatory bodies having jurisdiction. It is

agreed that CARRIER shall at all times be an independent contractor and not an agent of SENDER.

ARTICLE 9. CONDITIONS OF CONTRACT

Shipments transported hereunder shall be subject to the conditions of this Agreement; however, for conditions not covered in this Agreement, the Conditions of Contract shall be those set forth on the CARRIER's airbill or waybill ("Airbill") whether or not the SENDER and CARRIER have mutually agreed to receive shipments on Airbills or alternative documents. The Conditions of Contract incorporate by reference the rules and regulations of CARRIER's tariffs, which are available for inspection at CARRIER's offices.

ARTICLE 10. RECEIPT OF GOODS

The Airbill executed by CARRIER and SENDER at the time of tender of the shipment to CARRIER will constitute a receipt for SENDER's goods unless the parties agree to another form of pickup receipt. CARRIER shall obtain signatures for shipments upon delivery to the receiver; however, for delivery to a receiver's residence when the declared or Asset Protection value is less than \$500.00, a written receipt may not be obtained if no one is present to accept the shipment.

ARTICLE 11. SHIPPING VOLUME

The rates herein stipulated are based upon an anticipated volume of shipments by SENDER and the intent that, except as otherwise specifically agreed upon, SENDER will tender the majority of all shipments to Airborne Express. Notwithstanding the foregoing, SENDER may from time to time use the services of other carriers to meet delivery requirements. The parties agree to confer if SENDER reasonably believes that its shipment transportation needs are not being met as to specific pickup and delivery locations.

ARTICLE 12. MANAGEMENT REPORTS

CARRIER will provide monthly management reports containing shipping and savings activity by originating location and other relevant information as agreed upon.

ARTICLE 13. NON TRANSFER OF AGREEMENT

This Agreement is not transferable or assignable by either party without the prior written approval of the other.

ARTICLE 14. ACCEPTANCE OF SHIPMENTS

Carrie will make its best effort to provide the best pick up times in the park location.

CARRIER will reject a shipment prior to the performance of any transportation from origin when it reasonably appears to CARRIER that such shipment is improperly

packed or packaged. In the case of rejection, CARRIER will promptly notify SENDER at origin of said rejection and will return shipment to SENDER for repackaging.

ARTICLE 15. LIMITATIONS OF LIABILITY

(A) At the time of shipment, unless a higher value is declared or Asset Protection purchased and an additional charge paid, CARRIER's liability, if any, for shipments lost, damaged or otherwise adversely affected while in the care, custody and control of CARRIER, shall except in the event of grossly negligent or willful acts or omissions, be limited to the lowest of the following:

- (1) actual value;
- (2) for a Letter Express shipment, \$100;
- (3) for all other shipments, \$100 per piece (domestic U.S.) or \$20.00 per kilogram per piece (international and Canadian).

Asset Protection is not available for Ground Delivery Service ("GDS").

CARRIER shall not be liable for any special, incidental or consequential damages including, but not limited to, loss of profits or income, whether or not CARRIER had knowledge that such damages might be incurred.

(B) SENDER agrees to comply with the Conditions of Contract set forth in CARRIER's airbill and the rules and regulations of CARRIER's tariffs, including without limitation, the following:

(1) Domestic Claims

All claims for loss or damage must be in writing and received by CARRIER within ninety (90) days [nine (9) months for GDS shipments] after the date of acceptance of the shipment by CARRIER, and all damage and/or loss discovered by the receiver after delivery, and after a clear receipt has been given to CARRIER, must be reported in writing to CARRIER within fifteen (15) days after delivery, provided that, if SENDER purchases Asset Protection, such claims and reports may be received by CARRIER within one (1) year after acceptance of the shipment by CARRIER. Legal action to enforce a claim must be brought by SENDER within one (1) year [two (2) years for GDS shipments] after the claim has been denied in writing by CARRIER.

(2) Claims for delay must be made within fifteen (15) days from the date of shipment.

(3) CARRIER agrees that any domestic claims filed against it hereunder will be paid, declined, or a compromise offer in writing will be made, within thirty (30) days of the date the complete claim is filed by SENDER. If any such completed claim cannot be processed and disposed of within thirty (30) days after receipt thereof, CARRIER shall at that time and at the expiration of each succeeding thirty (30) day period while such claim remains pending advise SENDER in writing of the status of such claim.

(4) International Claims (including Canada)

All claims for reimbursement, except overcharges, must be in writing and received by CARRIER within one hundred twenty (120) days after acceptance of the shipment by CARRIER, provided that, if SENDER purchases Asset Protection, complaints for loss or damage must be received by CARRIER within one (1) year after shipment acceptance. In addition, in case of damage SENDER must give CARRIER a written complaint either on the airbill or by a separate notice within seven (7) days, or, if based on Warsaw amendment, fourteen (14) days after delivery of the shipments, provided that, if SENDER purchases Asset Protection, such complaint must be received by CARRIER within one (1) year after acceptance of the shipment by CARRIER. In addition, in case of delay, SENDER must give CARRIER a written complaint either on the airbill or by separate notice no later than fourteen (14) days from the date of delivery or refusal of the shipment.

CARRIER will not pay any claims until the transportation charges have been paid. SENDER may not deduct the amount of the claim from those charges. Legal action to enforce a claim, other than overcharge, must be brought within two (2) years after the claim has been denied, in whole or part, by CARRIER.

- (5) Claims for both domestic and international overcharges must be made in writing to CARRIER within one (1) year after the date of acceptance of the

shipment by CARRIER. The amount of an overcharge claim may not be deducted from transportation charges.

ARTICLE 16. CARRIER'S LIEN

CARRIER shall have a lien on the shipment, so long as the shipment remains in its possession, for all amounts due for transportation services in connection with the shipment. This lien may be enforced by public or private sale of the shipment, as a whole or in part, at any time or place or on any terms which are commercially reasonable, after notifying SENDER thereof.

ARTICLE 17. LABOR DISPUTES

Whenever an actual or potential labor dispute is delaying or threatens to delay the timely performance by CARRIER, CARRIER will immediately give notice thereof to SENDER. Such notice will include all relevant information with respect to such dispute. Notwithstanding other conditions of the agreement, in the event the CARRIER is unable to make pickups and/or deliveries the SENDER will be permitted to use another carrier without violation of this agreement.

ARTICLE 18. TERMINATION

SENDER or CARRIER may terminate this Agreement upon [**] days written notice to the other party in the event of any material breach of any of the provisions of this Agreement which remains uncured [**] days after written notice of breach.

SHIPPER's sole remedy for material breach of this Agreement is SHIPPER' right to terminate this Agreement pursuant to Article 18.

ARTICLE 19. NOTICES

All notices which may be given in connection with this Agreement shall be in writing, shall either be sent postage prepaid by certified mail with return receipt requested or by air express carrier service addressed to the other party at its address shown below and shall be deemed to have been given when so sent:

SENDER	CARRIER
Merrimack Services Corporation 730 Milford Rd. Merrimack, NH 03054 Attn: Steve Baldrige	Airborne Express, Inc. P.O. Box 662 Seattle, WA 98111 Attn: Customer Contracts Manager

ARTICLE 20. MODIFICATION OF AGREEMENT

No waiver, alteration or modification of the terms and conditions of this Agreement shall be binding unless in writing and signed by a duly authorized agent of CARRIER and SENDER.

ARTICLE 21. GENERAL TERMS AND CONDITIONS

(A) Paragraph headings herein are for information only and are not to be considered as part of this Agreement.

(B) A waiver by either party of any default of the other party shall not be deemed or considered as a waiver of a like default thereafter.

(C) No gratuities (in the form of entertainment, gifts of value or otherwise) shall be offered or given by one party to any officer or employee of the other party with a view toward securing a contract or securing favorable treatment with respect to the awarding of or the making of any determination with respect to the performance of such contracts.

(D) In the event of the imposition of any new or additional tax or fee on the transportation of shipments, and CARRIER desires to increase its rates to include such new or additional tax or fee, CARRIER shall give SENDER prior written notice of the rate change and the effective date thereof, which shall not be less than thirty (30) days from the date of the notice.

(E) Except as provided in Article 16 hereof, or as authorized by SENDER in writing, CARRIER shall not encumber, lease or otherwise dispose of any part of the shipments transported hereunder.

(F) Except as otherwise required by law, SENDER and CARRIER agree to maintain the confidentiality of the provisions of this Agreement, and shall not disclose its contents to any other person, firm or individual, except to their respective auditors and accountants, without prior written consent of the other.

(G) The invalidity of any provision of this Agreement shall not invalidate any remaining provision, and all valid terms and conditions of this Agreement shall be read as if the invalid terms and conditions were not present.

(H) This Agreement supersedes any prior written or oral agreements between the parties pertaining to the subject matter hereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed.

Merrimack Services Corporation

AIRBORNE EXPRESS, INC.

(SENDER)

(CARRIER)

By: /s/ Stephen C. Baldrige

By: /s/ Richard F. Corrado

Richard F. Corrado

Date: 10/15/01

Date: 10/22/01

Title: VP of Finance, Corp. Controller

Title: Vice President, Marketing

SCHEDULE A

TO

NATIONAL ACCOUNT AGREEMENT

Name of SENDER: COMPANY NAME

PC Connection, Inc.
PC Connection Sales Corporation
Merrimack Services Corporation
PC Connection Sales of Massachusetts, Inc.
Comteq Federal, Inc.
Comteq Federal of New Hampshire

Name(s) and address(es) of subsidiaries of SENDER:

730 Milford Road
Merrimack, NH 03054

Effective date of addition of subsidiaries to National Account Agreement:

DATED this 10th day of September, 2001.

SENDER:

COMPANY NAME

Merrimack Services Corporation

By: /s/ Stephen C. Baldrige

Date: 10/15/01

Title: VP, Finance

CARRIER:

AIRBORNE EXPRESS, INC.

By: /s/ Richard F. Corrado

Date: 10/22/01

Title: VP, Marketing

P C Connection
Linkage

Ltr (8 oz) [**] [**] [**] [**]

Lbs	Domestic Express	Next Afternoon	Second Day	Canadian	Lbs	Domestic Express	Next Afternoon	Second Day	Canadian
1	[**]	[**]	[**]	[**]	51	[**]	[**]	[**]	[**]
2	[**]	[**]	[**]	[**]	52	[**]	[**]	[**]	[**]
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50	[**]	[**]	[**]	[**]	100/CWT	[**]	[**]	[**]	[**]

Rates subject to change without notice and void if residential shipments exceed [**]% of total shipments. Reselling is prohibited.

P C Connection
Linkage

Application of Rates and Charges

* Application of Charges in US *

Express/Next Afternoon rates apply per piece Letter -9 lbs., per shipment over 9 lbs.

Second Day rates apply per piece Letter-99 lbs. per shipment over 99 lbs.

Rates for shipments over 100 lbs. will apply at the hundred weight per pound rate.

Next Afternoon service applies to shipments Letter to 10 lbs. to Bold Red points. Rates for Next Afternoon service over 10 lbs. match Express rates.

* Saturday Service *

Saturday Delivery Bold Red Points \$[**]. Saturday Pickup Bold Red Points \$[**].

Saturday Delivery Bold Black Points \$[**]. Saturday Pickup Bold Black Points \$[**].

Saturday delivery service is not available for Next Afternoon or Second Day service shipments.

* Puerto Rico and Virgin Islands *

An additional charge of \$[**] for Letter Express, \$[**] for 1-99 lbs. and \$[**]/CWT applies to all shipments to or from Puerto Rico and the Virgin Islands.

* Alaska and Hawaii *

For points in Alaska and Hawaii an additional charge of \$[**] for Letter Express, \$[**] for 1-99 lbs. and \$[**]/cwt for shipments over 99 lbs. will be added to the rates.

Next Afternoon and Second Day service are not available to Alaska or Hawaii.

* Canada *

Rates and charges are in US dollars. Rates apply Letter-99 lbs. door-to-door. Shipments over 100 lbs. do not include pick-up or delivery in Canada.

Rates apply when shipment is billed to sender from the contiguous US and Puerto Rico, to all points in Canada. Rates also apply from Canada when billed to recipients in the contiguous US and Puerto Rico.

For points in Alaska and Hawaii, an additional charge of \$[**] for Letter Express, \$[**] for 1-99 lbs. and \$[**] cwt. for packages weighing over 99lbs. will be added to the Canadian rates.

Canadian Rates are brokerage free and exclude customs duties if applicable to dutiable shipments.

* Other Charges *

Restricted article fee per shipment will be \$[**].

Dimensional charge: Charges based on greater of actual weight or dimensional weight of 1 pound per 225 cubic inches.

All Light Black origins in the contiguous U.S./Virgin Islands will be assessed an additional \$[**] charge per package under 100 lbs.; shipments 100 lbs. and above will be assessed a \$[**] minimum/\$[**] CWT.

C.O.D. service fee - \$[**].

A \$[**] pick-up charge may apply.

In the event of an increase in the cost of fuel or of the imposition of any new or increased tax or fee on the transportation of shipments, Airborne Express reserves the right to increase its rates to include such additional cost.

Please refer to Airborne's current Service Guide and tariff (available upon request) for additional fees, terms, conditions and service information. Any exceptions to those documents must be in writing from Airborne.

SCHEDULE B

P C Connection Non Linkage 091401

** This is a proposal of rates and charges subject to customer acceptance and approval by Airborne's Pricing department. **

Zone Rates + [**]%

Domestic Express

Ltr (8 oz)	[**]	[**]	[**]	[**]	[**]	[**]	[**]									
Lbs	2	3	4	5	6	7	8	Lbs	2	3	4	5	6	7	8	
1	[**]	[**]	[**]	[**]	[**]	[**]	[**]	51	[**]	[**]	[**]	[**]	[**]	[**]	[**]	
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Rates subject to change without notice and void if residential shipments exceed [**]% of total shipments. Reselling is prohibited.

SCHEDULE B

P C Connection Non Linkage 091401

** This is a proposal of rates and charges subject to customer acceptance and approval by Airborne's Pricing department. **

Zone rates +[**]%

Next Afternoon Service

Ltr (8 oz)	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	Lbs	2	3	4	5	6	7	8
1	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	51	[**]	[**]	[**]	[**]	[**]	[**]	[**]
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Rates subject to change without notice and void if residential shipments exceed [**]% of total shipments. Reselling is prohibited.

SCHEDULE B

P C Connection Non Linkage 091401

** This is a proposal of rates and charges subject to customer acceptance and approval by Airborne's Pricing department. **

Zone rates + [**]%

Second Day Service

Ltr (8 oz)	[**]	[**]	[**]	[**]	[**]	[**]	[**]									
Lbs	2	3	4	5	6	7	8	Lbs	2	3	4	5	6	7	8	
1	[**]	[**]	[**]	[**]	[**]	[**]	[**]	51	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
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50	[**]	[**]	[**]	[**]	[**]	[**]	[**]	100/CWT	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]

Rates subject to change without notice and void if residential shipments exceed [**]% of total shipments. Reselling is prohibited.

SCHEDULE B

P C Connection

Rates and charges apply corp wide.

Ltr (8 oz) [**] [**] [**] [**]

-----					-----				
Lbs	Domestic Express	Next Afternoon	Second Day	Canadian	Lbs	Domestic Express	Next Afternoon	Second Day	Canadian
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1	[**]	[**]	[**]	[**]	51	[**]	[**]	[**]	[**]
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50	[**]	[**]	[**]	[**]	100/CWT	[**]	[**]	[**]	[**]

Rates subject to change without notice and void if residential shipments exceed [**]% of total shipments. Reselling is prohibited.

SCHEDULE B

P C Connection

Rates with fuel surcharge embedded.

Ltr (8 oz)					Lbs				
	[**]	[**]	[**]	[**]					
Lbs	Domestic Express	Next Afternoon	Second Day	Canadian	Lbs	Domestic Express	Next Afternoon	Second Day	Canadian
1	[**]	[**]	[**]	[**]	51	[**]	[**]	[**]	[**]
2	[**]	[**]	[**]	[**]	52	[**]	[**]	[**]	[**]
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Rates subject to change without notice and void if residential shipments exceed [%] of total shipments. Reselling is prohibited.

P C Connection

Application of Rates and Charges

Rates and charges apply corporate wide.

* Application of Charges in US *

Express/Next Afternoon rates apply per piece Letter-99 lbs. per shipment over 99 lbs.

Second Day rates apply per piece Letter-99 lbs. per shipment over 99 lbs.

Rates for shipments over 100 lbs. will apply at the hundred weight per pound rate.

Next Afternoon service applies to shipments Letter to 5 lbs. to Bold Red points. Rates for Next Afternoon service over 5 lbs. match Express rates.

* Saturday Service *

Saturday Delivery Bold Red Points \$[**]. Saturday Pickup Bold Red Points \$[**].

Saturday Delivery Bold Black Points \$[**]. Saturday Pickup Bold Black Points \$[**].

Saturday delivery service is not available for Next Afternoon or Second Day service shipments.

* Puerto Rico and Virgin Islands *

An additional charge of \$[**] for Letter Express, \$[**] for 1-99 lbs. and \$[**]/CWT applies to all shipments to or from Puerto Rico and the Virgin Islands.

* Alaska and Hawaii *

For points in Alaska and Hawaii an additional charge of \$[**] for Letter Express, \$[**] for 1-99 lbs. and \$[**]/cwt for shipments over 99 lbs. will be added to the rates.

Next Afternoon and Second Day service are not available to Alaska or Hawaii.

* Canada *

Rates and charges are in US dollars. Rates apply Letter-99 lbs. door-to-door. Shipments over 100 lbs. do not include pick-up or delivery in Canada.

Rates apply when shipment is billed to sender from the contiguous US and Puerto Rico, to all points in Canada. Rates also apply from Canada when billed to recipients in the contiguous US and Puerto Rico.

For points in Alaska and Hawaii, an additional charge of \$[**] for Letter Express, \$[**] for 1-99 lbs. and \$[**] cwt. for packages weighing over 99lbs. will be added to the Canadian rates.

Canadian Rates are brokerage free and exclude customs duties if applicable to dutiable shipments.

* Other Charges *

Restricted article fee per shipment will be \$[**].

Dimensional charge: Charges based on greater of actual weight or dimensional weight of 1 pound per 225 cubic inches.

All Light Black origins in the contiguous U.S./Virgin Islands will be assessed an additional \$[**] charge per package under 100 lbs.; shipments 100 lbs. and above will be assessed a \$[**] minimum/\$[**] CWT.

C.O.D. service fee - \$[**].

In the event of an increase in the cost of fuel or of the imposition of any new or increased tax or fee on the transportation of shipments, Airborne Express reserves the right to increase its rates to include such additional cost.

Please refer to Airborne's current Service Guide and tariff (available upon request) for additional fees, terms, conditions and service information. Any exceptions to those documents must be in writing from Airborne.

SCHEDULE B

P C Connection
Ground Delivery Service

Lbs	2	3	4	5	6	7	8	Lbs	2	3	4	5	6	7	8
1	[**]	[**]	[**]	[**]	[**]	[**]	[**]	51	[**]	[**]	[**]	[**]	[**]	[**]	[**]
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8	[**]	[**]	[**]	[**]	[**]	[**]	[**]	58	[**]	[**]	[**]	[**]	[**]	[**]	[**]
9	[**]	[**]	[**]	[**]	[**]	[**]	[**]	59	[**]	[**]	[**]	[**]	[**]	[**]	[**]
10	[**]	[**]	[**]	[**]	[**]	[**]	[**]	60	[**]	[**]	[**]	[**]	[**]	[**]	[**]
11	[**]	[**]	[**]	[**]	[**]	[**]	[**]	61	[**]	[**]	[**]	[**]	[**]	[**]	[**]
12	[**]	[**]	[**]	[**]	[**]	[**]	[**]	62	[**]	[**]	[**]	[**]	[**]	[**]	[**]
13	[**]	[**]	[**]	[**]	[**]	[**]	[**]	63	[**]	[**]	[**]	[**]	[**]	[**]	[**]
14	[**]	[**]	[**]	[**]	[**]	[**]	[**]	64	[**]	[**]	[**]	[**]	[**]	[**]	[**]
15	[**]	[**]	[**]	[**]	[**]	[**]	[**]	65	[**]	[**]	[**]	[**]	[**]	[**]	[**]
16	[**]	[**]	[**]	[**]	[**]	[**]	[**]	66	[**]	[**]	[**]	[**]	[**]	[**]	[**]
17	[**]	[**]	[**]	[**]	[**]	[**]	[**]	67	[**]	[**]	[**]	[**]	[**]	[**]	[**]
18	[**]	[**]	[**]	[**]	[**]	[**]	[**]	68	[**]	[**]	[**]	[**]	[**]	[**]	[**]
19	[**]	[**]	[**]	[**]	[**]	[**]	[**]	69	[**]	[**]	[**]	[**]	[**]	[**]	[**]
20	[**]	[**]	[**]	[**]	[**]	[**]	[**]	70	[**]	[**]	[**]	[**]	[**]	[**]	[**]
21	[**]	[**]	[**]	[**]	[**]	[**]	[**]	71	[**]	[**]	[**]	[**]	[**]	[**]	[**]
22	[**]	[**]	[**]	[**]	[**]	[**]	[**]	72	[**]	[**]	[**]	[**]	[**]	[**]	[**]
23	[**]	[**]	[**]	[**]	[**]	[**]	[**]	73	[**]	[**]	[**]	[**]	[**]	[**]	[**]
24	[**]	[**]	[**]	[**]	[**]	[**]	[**]	74	[**]	[**]	[**]	[**]	[**]	[**]	[**]
25	[**]	[**]	[**]	[**]	[**]	[**]	[**]	75	[**]	[**]	[**]	[**]	[**]	[**]	[**]
26	[**]	[**]	[**]	[**]	[**]	[**]	[**]	76	[**]	[**]	[**]	[**]	[**]	[**]	[**]
27	[**]	[**]	[**]	[**]	[**]	[**]	[**]	77	[**]	[**]	[**]	[**]	[**]	[**]	[**]
28	[**]	[**]	[**]	[**]	[**]	[**]	[**]	78	[**]	[**]	[**]	[**]	[**]	[**]	[**]
29	[**]	[**]	[**]	[**]	[**]	[**]	[**]	79	[**]	[**]	[**]	[**]	[**]	[**]	[**]
30	[**]	[**]	[**]	[**]	[**]	[**]	[**]	80	[**]	[**]	[**]	[**]	[**]	[**]	[**]
31	[**]	[**]	[**]	[**]	[**]	[**]	[**]	81	[**]	[**]	[**]	[**]	[**]	[**]	[**]
32	[**]	[**]	[**]	[**]	[**]	[**]	[**]	82	[**]	[**]	[**]	[**]	[**]	[**]	[**]
33	[**]	[**]	[**]	[**]	[**]	[**]	[**]	83	[**]	[**]	[**]	[**]	[**]	[**]	[**]
34	[**]	[**]	[**]	[**]	[**]	[**]	[**]	84	[**]	[**]	[**]	[**]	[**]	[**]	[**]
35	[**]	[**]	[**]	[**]	[**]	[**]	[**]	85	[**]	[**]	[**]	[**]	[**]	[**]	[**]
36	[**]	[**]	[**]	[**]	[**]	[**]	[**]	86	[**]	[**]	[**]	[**]	[**]	[**]	[**]
37	[**]	[**]	[**]	[**]	[**]	[**]	[**]	87	[**]	[**]	[**]	[**]	[**]	[**]	[**]
38	[**]	[**]	[**]	[**]	[**]	[**]	[**]	88	[**]	[**]	[**]	[**]	[**]	[**]	[**]
39	[**]	[**]	[**]	[**]	[**]	[**]	[**]	89	[**]	[**]	[**]	[**]	[**]	[**]	[**]
40	[**]	[**]	[**]	[**]	[**]	[**]	[**]	90	[**]	[**]	[**]	[**]	[**]	[**]	[**]
41	[**]	[**]	[**]	[**]	[**]	[**]	[**]	91	[**]	[**]	[**]	[**]	[**]	[**]	[**]
42	[**]	[**]	[**]	[**]	[**]	[**]	[**]	92	[**]	[**]	[**]	[**]	[**]	[**]	[**]
43	[**]	[**]	[**]	[**]	[**]	[**]	[**]	93	[**]	[**]	[**]	[**]	[**]	[**]	[**]
44	[**]	[**]	[**]	[**]	[**]	[**]	[**]	94	[**]	[**]	[**]	[**]	[**]	[**]	[**]
45	[**]	[**]	[**]	[**]	[**]	[**]	[**]	95	[**]	[**]	[**]	[**]	[**]	[**]	[**]
46	[**]	[**]	[**]	[**]	[**]	[**]	[**]	96	[**]	[**]	[**]	[**]	[**]	[**]	[**]
47	[**]	[**]	[**]	[**]	[**]	[**]	[**]	97	[**]	[**]	[**]	[**]	[**]	[**]	[**]
48	[**]	[**]	[**]	[**]	[**]	[**]	[**]	98	[**]	[**]	[**]	[**]	[**]	[**]	[**]
49	[**]	[**]	[**]	[**]	[**]	[**]	[**]	99	[**]	[**]	[**]	[**]	[**]	[**]	[**]
50	[**]	[**]	[**]	[**]	[**]	[**]	[**]	100/CWT	[**]	[**]	[**]	[**]	[**]	[**]	[**]

Rates subject to change without notice. Rates void if residential shipments exceed [%] of total shipments. Reselling is prohibited.

Recipient agrees not to disclose this information to any third party.

Application of Ground Delivery Service Rates and Charges

* Rates *

Ground Delivery Service and rates apply between points in the contiguous United States only. Packages of 100 lbs or more will be charged per pound at the appropriate hundredweight rate.

Rates for multi-package shipments weighing 200 lbs. or more will be based on the sum of the individual package charges or the total weight of the shipment, whichever is less. Charges based on total shipment weight are subject to a minimum of the [**] pound charge for each package, or a shipment minimum charge of \$[**], whichever is greater.

* Other Charges *

Hazardous Materials fee is \$[**] per package.

Oversize: Packages with length plus girth exceeding 84" through 108" will be charged at the greater of 30lbs. or actual weight. Packages with length plus girth exceeding 108" will be charged at the greater of 70 lbs. or actual weight. An additional charge of \$[**] will be assessed to packages over 60" in length; each package or article not fully encased in an outside shipping container; any article that is encased in an outside shipping container made of metal or wood; and cans or pails not fully encased in a shipping container made of corrugated cardboard. An additional charge of \$[**] will be assessed to the following packages, which will be handled at Airborne's option: (a) over 150lbs; (b) length over 108"; (c) length plus girth over 130".

Weekly Service Charge (based on weekly net freight charges billed): \$[**] (\$[**]), \$[**] (\$[**]), \$[**] (\$[**] billed).

Delivery Area surcharge \$[**] per package.

Residential delivery charge \$[**] per package.

In the event of an increase in the cost of fuel or of the imposition of any new or increased tax or fee on the transportation of shipments, Airborne Express reserves the right to increase its rates or apply a surcharge to cover such additional cost.

Fuel surcharge in effect at time of shipment shall apply.

Airborne's Tariff in effect at the time of shipment, available on request and at Airborne's website, www.airborne.com, governs all ground shipments. Refer to Airborne's Tariff for additional fees, terms, conditions and service information. Any exceptions to Airborne's Tariff must be in writing from Airborne and approved by Airborne's Pricing Department.

Agreed and Accepted By:

(Carrier) Airborne Express, Inc.

(Shipper)

By (an authorized representative)

By (an authorized representative)

Title

Title

Date

Address

Date

Recipient agrees not to disclose this information to any third party.

SCHEDULE B

P C Connection
Linkage

** This is a proposal of rates and charges subject to customer acceptance and approval by Airborne's Pricing department. **

Zone rates + [%] with fsc.

Domestic Express

Ltr (8 oz) [%] [%] [%] [%] [%] [%] [%] [%]

Lbs	2	3	4	5	6	7	8	Lbs	2	3	4	5	6	7	8
1	[%]	[%]	[%]	[%]	[%]	[%]	[%]	51	[%]	[%]	[%]	[%]	[%]	[%]	[%]
2	[%]	[%]	[%]	[%]	[%]	[%]	[%]	52	[%]	[%]	[%]	[%]	[%]	[%]	[%]
3	[%]	[%]	[%]	[%]	[%]	[%]	[%]	53	[%]	[%]	[%]	[%]	[%]	[%]	[%]
4	[%]	[%]	[%]	[%]	[%]	[%]	[%]	54	[%]	[%]	[%]	[%]	[%]	[%]	[%]
5	[%]	[%]	[%]	[%]	[%]	[%]	[%]	55	[%]	[%]	[%]	[%]	[%]	[%]	[%]
6	[%]	[%]	[%]	[%]	[%]	[%]	[%]	56	[%]	[%]	[%]	[%]	[%]	[%]	[%]
7	[%]	[%]	[%]	[%]	[%]	[%]	[%]	57	[%]	[%]	[%]	[%]	[%]	[%]	[%]
8	[%]	[%]	[%]	[%]	[%]	[%]	[%]	58	[%]	[%]	[%]	[%]	[%]	[%]	[%]
9	[%]	[%]	[%]	[%]	[%]	[%]	[%]	59	[%]	[%]	[%]	[%]	[%]	[%]	[%]
10	[%]	[%]	[%]	[%]	[%]	[%]	[%]	60	[%]	[%]	[%]	[%]	[%]	[%]	[%]
11	[%]	[%]	[%]	[%]	[%]	[%]	[%]	61	[%]	[%]	[%]	[%]	[%]	[%]	[%]
12	[%]	[%]	[%]	[%]	[%]	[%]	[%]	62	[%]	[%]	[%]	[%]	[%]	[%]	[%]
13	[%]	[%]	[%]	[%]	[%]	[%]	[%]	63	[%]	[%]	[%]	[%]	[%]	[%]	[%]
14	[%]	[%]	[%]	[%]	[%]	[%]	[%]	64	[%]	[%]	[%]	[%]	[%]	[%]	[%]
15	[%]	[%]	[%]	[%]	[%]	[%]	[%]	65	[%]	[%]	[%]	[%]	[%]	[%]	[%]
16	[%]	[%]	[%]	[%]	[%]	[%]	[%]	66	[%]	[%]	[%]	[%]	[%]	[%]	[%]
17	[%]	[%]	[%]	[%]	[%]	[%]	[%]	67	[%]	[%]	[%]	[%]	[%]	[%]	[%]
18	[%]	[%]	[%]	[%]	[%]	[%]	[%]	68	[%]	[%]	[%]	[%]	[%]	[%]	[%]
19	[%]	[%]	[%]	[%]	[%]	[%]	[%]	69	[%]	[%]	[%]	[%]	[%]	[%]	[%]
20	[%]	[%]	[%]	[%]	[%]	[%]	[%]	70	[%]	[%]	[%]	[%]	[%]	[%]	[%]
21	[%]	[%]	[%]	[%]	[%]	[%]	[%]	71	[%]	[%]	[%]	[%]	[%]	[%]	[%]
22	[%]	[%]	[%]	[%]	[%]	[%]	[%]	72	[%]	[%]	[%]	[%]	[%]	[%]	[%]
23	[%]	[%]	[%]	[%]	[%]	[%]	[%]	73	[%]	[%]	[%]	[%]	[%]	[%]	[%]
24	[%]	[%]	[%]	[%]	[%]	[%]	[%]	74	[%]	[%]	[%]	[%]	[%]	[%]	[%]
25	[%]	[%]	[%]	[%]	[%]	[%]	[%]	75	[%]	[%]	[%]	[%]	[%]	[%]	[%]
26	[%]	[%]	[%]	[%]	[%]	[%]	[%]	76	[%]	[%]	[%]	[%]	[%]	[%]	[%]
27	[%]	[%]	[%]	[%]	[%]	[%]	[%]	77	[%]	[%]	[%]	[%]	[%]	[%]	[%]
28	[%]	[%]	[%]	[%]	[%]	[%]	[%]	78	[%]	[%]	[%]	[%]	[%]	[%]	[%]
29	[%]	[%]	[%]	[%]	[%]	[%]	[%]	79	[%]	[%]	[%]	[%]	[%]	[%]	[%]
30	[%]	[%]	[%]	[%]	[%]	[%]	[%]	80	[%]	[%]	[%]	[%]	[%]	[%]	[%]
31	[%]	[%]	[%]	[%]	[%]	[%]	[%]	81	[%]	[%]	[%]	[%]	[%]	[%]	[%]
32	[%]	[%]	[%]	[%]	[%]	[%]	[%]	82	[%]	[%]	[%]	[%]	[%]	[%]	[%]
33	[%]	[%]	[%]	[%]	[%]	[%]	[%]	83	[%]	[%]	[%]	[%]	[%]	[%]	[%]
34	[%]	[%]	[%]	[%]	[%]	[%]	[%]	84	[%]	[%]	[%]	[%]	[%]	[%]	[%]
35	[%]	[%]	[%]	[%]	[%]	[%]	[%]	85	[%]	[%]	[%]	[%]	[%]	[%]	[%]
36	[%]	[%]	[%]	[%]	[%]	[%]	[%]	86	[%]	[%]	[%]	[%]	[%]	[%]	[%]
37	[%]	[%]	[%]	[%]	[%]	[%]	[%]	87	[%]	[%]	[%]	[%]	[%]	[%]	[%]
38	[%]	[%]	[%]	[%]	[%]	[%]	[%]	88	[%]	[%]	[%]	[%]	[%]	[%]	[%]
39	[%]	[%]	[%]	[%]	[%]	[%]	[%]	89	[%]	[%]	[%]	[%]	[%]	[%]	[%]
40	[%]	[%]	[%]	[%]	[%]	[%]	[%]	90	[%]	[%]	[%]	[%]	[%]	[%]	[%]
41	[%]	[%]	[%]	[%]	[%]	[%]	[%]	91	[%]	[%]	[%]	[%]	[%]	[%]	[%]
42	[%]	[%]	[%]	[%]	[%]	[%]	[%]	92	[%]	[%]	[%]	[%]	[%]	[%]	[%]
43	[%]	[%]	[%]	[%]	[%]	[%]	[%]	93	[%]	[%]	[%]	[%]	[%]	[%]	[%]
44	[%]	[%]	[%]	[%]	[%]	[%]	[%]	94	[%]	[%]	[%]	[%]	[%]	[%]	[%]
45	[%]	[%]	[%]	[%]	[%]	[%]	[%]	95	[%]	[%]	[%]	[%]	[%]	[%]	[%]
46	[%]	[%]	[%]	[%]	[%]	[%]	[%]	96	[%]	[%]	[%]	[%]	[%]	[%]	[%]
47	[%]	[%]	[%]	[%]	[%]	[%]	[%]	97	[%]	[%]	[%]	[%]	[%]	[%]	[%]
48	[%]	[%]	[%]	[%]	[%]	[%]	[%]	98	[%]	[%]	[%]	[%]	[%]	[%]	[%]
49	[%]	[%]	[%]	[%]	[%]	[%]	[%]	99	[%]	[%]	[%]	[%]	[%]	[%]	[%]
50	[%]	[%]	[%]	[%]	[%]	[%]	[%]	100/CWT	[%]	[%]	[%]	[%]	[%]	[%]	[%]

Rates subject to change without notice and void if residential shipments exceed [%] of total shipments. Reselling is prohibited.

SCHEDULE B

P C Connection
Linkage

** This is a proposal of rates and charges subject to customer acceptance and approval by Airborne's Pricing department. **

Zone rates + [%] with fsc.

Next Afternoon

Ltr (8 oz) [%] [%] [%] [%] [%] [%] [%] [%]

Lbs	2	3	4	5	6	7	8	Lbs	2	3	4	5	6	7	8
1	[%]	[%]	[%]	[%]	[%]	[%]	[%]	51	[%]	[%]	[%]	[%]	[%]	[%]	[%]
2	[%]	[%]	[%]	[%]	[%]	[%]	[%]	52	[%]	[%]	[%]	[%]	[%]	[%]	[%]
3	[%]	[%]	[%]	[%]	[%]	[%]	[%]	53	[%]	[%]	[%]	[%]	[%]	[%]	[%]
4	[%]	[%]	[%]	[%]	[%]	[%]	[%]	54	[%]	[%]	[%]	[%]	[%]	[%]	[%]
5	[%]	[%]	[%]	[%]	[%]	[%]	[%]	55	[%]	[%]	[%]	[%]	[%]	[%]	[%]
6	[%]	[%]	[%]	[%]	[%]	[%]	[%]	56	[%]	[%]	[%]	[%]	[%]	[%]	[%]
7	[%]	[%]	[%]	[%]	[%]	[%]	[%]	57	[%]	[%]	[%]	[%]	[%]	[%]	[%]
8	[%]	[%]	[%]	[%]	[%]	[%]	[%]	58	[%]	[%]	[%]	[%]	[%]	[%]	[%]
9	[%]	[%]	[%]	[%]	[%]	[%]	[%]	59	[%]	[%]	[%]	[%]	[%]	[%]	[%]
10	[%]	[%]	[%]	[%]	[%]	[%]	[%]	60	[%]	[%]	[%]	[%]	[%]	[%]	[%]
11	[%]	[%]	[%]	[%]	[%]	[%]	[%]	61	[%]	[%]	[%]	[%]	[%]	[%]	[%]
12	[%]	[%]	[%]	[%]	[%]	[%]	[%]	62	[%]	[%]	[%]	[%]	[%]	[%]	[%]
13	[%]	[%]	[%]	[%]	[%]	[%]	[%]	63	[%]	[%]	[%]	[%]	[%]	[%]	[%]
14	[%]	[%]	[%]	[%]	[%]	[%]	[%]	64	[%]	[%]	[%]	[%]	[%]	[%]	[%]
15	[%]	[%]	[%]	[%]	[%]	[%]	[%]	65	[%]	[%]	[%]	[%]	[%]	[%]	[%]
16	[%]	[%]	[%]	[%]	[%]	[%]	[%]	66	[%]	[%]	[%]	[%]	[%]	[%]	[%]
17	[%]	[%]	[%]	[%]	[%]	[%]	[%]	67	[%]	[%]	[%]	[%]	[%]	[%]	[%]
18	[%]	[%]	[%]	[%]	[%]	[%]	[%]	68	[%]	[%]	[%]	[%]	[%]	[%]	[%]
19	[%]	[%]	[%]	[%]	[%]	[%]	[%]	69	[%]	[%]	[%]	[%]	[%]	[%]	[%]
20	[%]	[%]	[%]	[%]	[%]	[%]	[%]	70	[%]	[%]	[%]	[%]	[%]	[%]	[%]
21	[%]	[%]	[%]	[%]	[%]	[%]	[%]	71	[%]	[%]	[%]	[%]	[%]	[%]	[%]
22	[%]	[%]	[%]	[%]	[%]	[%]	[%]	72	[%]	[%]	[%]	[%]	[%]	[%]	[%]
23	[%]	[%]	[%]	[%]	[%]	[%]	[%]	73	[%]	[%]	[%]	[%]	[%]	[%]	[%]
24	[%]	[%]	[%]	[%]	[%]	[%]	[%]	74	[%]	[%]	[%]	[%]	[%]	[%]	[%]
25	[%]	[%]	[%]	[%]	[%]	[%]	[%]	75	[%]	[%]	[%]	[%]	[%]	[%]	[%]
26	[%]	[%]	[%]	[%]	[%]	[%]	[%]	76	[%]	[%]	[%]	[%]	[%]	[%]	[%]
27	[%]	[%]	[%]	[%]	[%]	[%]	[%]	77	[%]	[%]	[%]	[%]	[%]	[%]	[%]
28	[%]	[%]	[%]	[%]	[%]	[%]	[%]	78	[%]	[%]	[%]	[%]	[%]	[%]	[%]
29	[%]	[%]	[%]	[%]	[%]	[%]	[%]	79	[%]	[%]	[%]	[%]	[%]	[%]	[%]
30	[%]	[%]	[%]	[%]	[%]	[%]	[%]	80	[%]	[%]	[%]	[%]	[%]	[%]	[%]
31	[%]	[%]	[%]	[%]	[%]	[%]	[%]	81	[%]	[%]	[%]	[%]	[%]	[%]	[%]
32	[%]	[%]	[%]	[%]	[%]	[%]	[%]	82	[%]	[%]	[%]	[%]	[%]	[%]	[%]
33	[%]	[%]	[%]	[%]	[%]	[%]	[%]	83	[%]	[%]	[%]	[%]	[%]	[%]	[%]
34	[%]	[%]	[%]	[%]	[%]	[%]	[%]	84	[%]	[%]	[%]	[%]	[%]	[%]	[%]
35	[%]	[%]	[%]	[%]	[%]	[%]	[%]	85	[%]	[%]	[%]	[%]	[%]	[%]	[%]
36	[%]	[%]	[%]	[%]	[%]	[%]	[%]	86	[%]	[%]	[%]	[%]	[%]	[%]	[%]
37	[%]	[%]	[%]	[%]	[%]	[%]	[%]	87	[%]	[%]	[%]	[%]	[%]	[%]	[%]
38	[%]	[%]	[%]	[%]	[%]	[%]	[%]	88	[%]	[%]	[%]	[%]	[%]	[%]	[%]
39	[%]	[%]	[%]	[%]	[%]	[%]	[%]	89	[%]	[%]	[%]	[%]	[%]	[%]	[%]
40	[%]	[%]	[%]	[%]	[%]	[%]	[%]	90	[%]	[%]	[%]	[%]	[%]	[%]	[%]
41	[%]	[%]	[%]	[%]	[%]	[%]	[%]	91	[%]	[%]	[%]	[%]	[%]	[%]	[%]
42	[%]	[%]	[%]	[%]	[%]	[%]	[%]	92	[%]	[%]	[%]	[%]	[%]	[%]	[%]
43	[%]	[%]	[%]	[%]	[%]	[%]	[%]	93	[%]	[%]	[%]	[%]	[%]	[%]	[%]
44	[%]	[%]	[%]	[%]	[%]	[%]	[%]	94	[%]	[%]	[%]	[%]	[%]	[%]	[%]
45	[%]	[%]	[%]	[%]	[%]	[%]	[%]	95	[%]	[%]	[%]	[%]	[%]	[%]	[%]
46	[%]	[%]	[%]	[%]	[%]	[%]	[%]	96	[%]	[%]	[%]	[%]	[%]	[%]	[%]
47	[%]	[%]	[%]	[%]	[%]	[%]	[%]	97	[%]	[%]	[%]	[%]	[%]	[%]	[%]
48	[%]	[%]	[%]	[%]	[%]	[%]	[%]	98	[%]	[%]	[%]	[%]	[%]	[%]	[%]
49	[%]	[%]	[%]	[%]	[%]	[%]	[%]	99	[%]	[%]	[%]	[%]	[%]	[%]	[%]
50	[%]	[%]	[%]	[%]	[%]	[%]	[%]	100/CWT	[%]	[%]	[%]	[%]	[%]	[%]	[%]

Rates subject to change without notice and void if residential shipments exceed [%] of total shipments. Reselling is prohibited.

SCHEDULE B

P C Connection
Linkage

** This is a proposal of rates and charges subject to customer acceptance and approval by Airborne's Pricing department. **

Zone rates + [%] with fsc.

Second Day Service

Ltr (8 oz) [%] [%] [%] [%] [%] [%] [%] [%]

Lbs								Lbs							
2	3	4	5	6	7	8		2	3	4	5	6	7	8	
1	[%]	[%]	[%]	[%]	[%]	[%]	51	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
2	[%]	[%]	[%]	[%]	[%]	[%]	52	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
3	[%]	[%]	[%]	[%]	[%]	[%]	53	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
4	[%]	[%]	[%]	[%]	[%]	[%]	54	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
5	[%]	[%]	[%]	[%]	[%]	[%]	55	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
6	[%]	[%]	[%]	[%]	[%]	[%]	56	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
7	[%]	[%]	[%]	[%]	[%]	[%]	57	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
8	[%]	[%]	[%]	[%]	[%]	[%]	58	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
9	[%]	[%]	[%]	[%]	[%]	[%]	59	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
10	[%]	[%]	[%]	[%]	[%]	[%]	60	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
11	[%]	[%]	[%]	[%]	[%]	[%]	61	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
12	[%]	[%]	[%]	[%]	[%]	[%]	62	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
13	[%]	[%]	[%]	[%]	[%]	[%]	63	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
14	[%]	[%]	[%]	[%]	[%]	[%]	64	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
15	[%]	[%]	[%]	[%]	[%]	[%]	65	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
16	[%]	[%]	[%]	[%]	[%]	[%]	66	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
17	[%]	[%]	[%]	[%]	[%]	[%]	67	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
18	[%]	[%]	[%]	[%]	[%]	[%]	68	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
19	[%]	[%]	[%]	[%]	[%]	[%]	69	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
20	[%]	[%]	[%]	[%]	[%]	[%]	70	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
21	[%]	[%]	[%]	[%]	[%]	[%]	71	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
22	[%]	[%]	[%]	[%]	[%]	[%]	72	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
23	[%]	[%]	[%]	[%]	[%]	[%]	73	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
24	[%]	[%]	[%]	[%]	[%]	[%]	74	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
25	[%]	[%]	[%]	[%]	[%]	[%]	75	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
26	[%]	[%]	[%]	[%]	[%]	[%]	76	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
27	[%]	[%]	[%]	[%]	[%]	[%]	77	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
28	[%]	[%]	[%]	[%]	[%]	[%]	78	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
29	[%]	[%]	[%]	[%]	[%]	[%]	79	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
30	[%]	[%]	[%]	[%]	[%]	[%]	80	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
31	[%]	[%]	[%]	[%]	[%]	[%]	81	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
32	[%]	[%]	[%]	[%]	[%]	[%]	82	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
33	[%]	[%]	[%]	[%]	[%]	[%]	83	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
34	[%]	[%]	[%]	[%]	[%]	[%]	84	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
35	[%]	[%]	[%]	[%]	[%]	[%]	85	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
36	[%]	[%]	[%]	[%]	[%]	[%]	86	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
37	[%]	[%]	[%]	[%]	[%]	[%]	87	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
38	[%]	[%]	[%]	[%]	[%]	[%]	88	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
39	[%]	[%]	[%]	[%]	[%]	[%]	89	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
40	[%]	[%]	[%]	[%]	[%]	[%]	90	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
41	[%]	[%]	[%]	[%]	[%]	[%]	91	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
42	[%]	[%]	[%]	[%]	[%]	[%]	92	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
43	[%]	[%]	[%]	[%]	[%]	[%]	93	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
44	[%]	[%]	[%]	[%]	[%]	[%]	94	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
45	[%]	[%]	[%]	[%]	[%]	[%]	95	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
46	[%]	[%]	[%]	[%]	[%]	[%]	96	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
47	[%]	[%]	[%]	[%]	[%]	[%]	97	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
48	[%]	[%]	[%]	[%]	[%]	[%]	98	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
49	[%]	[%]	[%]	[%]	[%]	[%]	99	[%]	[%]	[%]	[%]	[%]	[%]	[%]	
50	[%]	[%]	[%]	[%]	[%]	[%]	100/CWT	[%]	[%]	[%]	[%]	[%]	[%]	[%]	

Rates subject to change without notice and void if residential shipments exceed [%] of total shipments. Reselling is prohibited.

RATES AND CHARGES FOR P C CONNECTION SERVICES

OUTBOUND
DOOR TO DOOR
INTERNATIONAL EXPRESS CHARGES
DOCUMENTS AND PACKAGES
IDC ZZ7

FROM: All Bold Red/Bold Black points in the U.S.A. & Puerto Rico listed in the current A.F.C. Service Guide.
TO: For the specific points served, refer to Attachment A.

	MAJOR EUROPE	MINOR EUROPE	MAJOR ASIA	JAPAN	MINOR ASIA	AUSTRALIA OCEANIA	CHINA	MEXICO	CARIB BEAN	LATIN AMERICA	MIDDLE EAST	EASTERN EUROPE	S ASIA S AFRICA	AFRICA
WGT / LBS	A	B	C	D	E	F	G	H	I	J	K	L / M	N	O
Letter	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
1	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
2	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
3	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
4	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
5	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
6	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
7	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
8	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
9	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
10	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
11	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
12	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
13	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
14	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
15	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
16	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
17	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
18	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
19	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
20	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
21	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
22	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
23	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
24	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
25	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
26	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
27	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
28	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
29	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
30	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
31	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
32	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
33	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
34	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
35	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
36	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
37	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
38	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
39	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
40	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
41	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
42	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
43	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
44	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
45	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
46	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
47	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
48	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
49	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
50	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]
* 51+	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]	[**]

* This rate applies to each additional pound, 51 pounds and above. Add to the 50 pound charge.

RULES AND REGULATIONS:

1. All Light Black points in the United States and all points served in the Virgin Islands will be assessed an additional \$[**] charge per shipment. No additional charges apply to points in Puerto Rico.
2. An Advance Destination Charge may be assessed for deliveries outside the standard delivery areas. Please call 1-800-ABX-INTL for further information.
3. Shipments to Mexico valued up to \$199.00 are cleared duty free; \$[**] will be added to the Scale H rates above for this service.
4. Rates do not include duties, taxes or VAT (Value Added Tax) charges.

SUBJECT TO CHANGE WITHOUT NOTICE.

AIRBORNE EXPRESS
DOOR TO DOOR
INTERNATIONAL EXPRESS POINTS SERVED
applicable to "Z" IDC's only

TO THE FOLLOWING COUNTRIES/CITIES:	USE REGION	TRANSIT DAYS	COLLECT SERVICE	FREE DOMICILE	TO THE FOLLOWING COUNTRIES/CITIES:	USE REGION	TRANSIT DAYS	COLLECT SERVICE	FREE DOMICILE
Afghanistan	NO SVC				Denmark	B	2	YES	YES
Albania	L	4			Djibouti	O	5		
Algeria	O	4			Dominica	I	2	*YES	
American Samoa	F	5	YES	YES	Dominican Republic	I	2	*YES	YES
Andorra	A	3	YES	YES	Ecuador	J	2	*YES	YES
Angola	O	4			Egypt	K	3	YES	YES
Anguilla	I	2			El Salvador	J	2	*YES	YES
Antarctica	NO SVC				England, U.K.	A	2	YES	YES
Antigua & Barbuda	I	2			Equatorial Guinea	NO SVC			
Argentina	J	2	*YES	YES	Eritrea	O	4		
Armenia	M	5			Estonia	M	3		
Aruba	I	2	*YES	YES	Ethiopia	O	3		
Australia	F	3	YES	YES	Faroe Islands	L	4	YES	YES
Austria	B	2	YES	YES	Falkland Islands	NO SVC			
Azerbaijan	M	7			Fiji	F	4		
Azores (Portugal)	B	5			Finland	B	2	YES	YES
Bahamas	I	1	*YES	YES	France	A	2	YES	YES
Bahrain	K	3	YES	YES	French Guiana	J	5		
Bangladesh	N	4			French Polynesia	F	8		
Barbados	I	2			Gabon	O	4		
Belarus (Byelarus)	M	4			Gambia	O	4		
Belgium	A	2	YES	YES	Georgia	M	7		
Belize	J	2			Germany	A	2	YES	YES
Benin	O	5			Ghana	O	4		
Bermuda	I	2	*YES	YES	Gibraltar	B	3		
Bhutan	NO SVC				Greece	B	2	YES	YES
Bolivia	J	2	*YES	YES	Greenland	B	5		
Bonaire	I	2			Grenada	I	2		
Bosnia Hercegovina	L	4			Guadeloupe	I	2		
Botswana	O	4			Guam	F	3		
Brazil	J	2	*YES	YES	Guatemala	J	2	*YES	YES
British Virgin Islands	I	3			Guinea	O	5		
Brunei	F	4	YES	YES	Guinea Bissau	NO SVC			
Bulgaria	L	4	YES	YES	Guyana	J	3		
Burkina Faso	O	4			Haiti	I	2	*YES	
Burundi	O	5			Honduras	J	2	*YES	YES
Cambodia	N	4			Hong Kong	C	3	YES	YES
Cameroon	O	4			Hungary	L	3	YES	
Canary Is (Spain)	B	5	YES	YES	Iceland	L	2	YES	
Cape Verde	O	5			India	N	3		YES
Cayman Islands	I	1	*YES		Indonesia	E	3		YES
Central African Republic	O	7			Iran	NO SVC			
Chad	O	4			Iraq	NO SVC			
Channel Islands (see UK)	A	2			Ireland	A	2	YES	YES
Chile	J	2	*YES	YES	Ireland, Northern (UK)	A	2	YES	YES
China	G	3			Isle of Man (UK)	A	2	YES	YES
Colombia	J	2		YES	Israel	K	3	YES	YES
Comoros	NO SVC				Italy	A	2	YES	YES
Congo	O	5			Ivory Coast	O	4		
Congo, Dem Rep of	O	4			Jamaica	I	2	*YES	YES
Cook Is	F	5			Japan	D	3	YES	YES
Costa Rica	J	2	*YES	YES	Jordan	K	3	YES	YES
Croatia	L	3			Kazakhstan	M	5		
Cuba	NO SVC				Kenya	O	3		
Curacao	I	2			Kiribati	F	8		
Cyprus	K	2	YES	YES	Korea North	NO SVC			
Czech Republic	L	2	YES		Korea South	C	3	YES	YES

* Collect Service available to major cities only.

Transit days are to metropolitan areas only. Add at least 1 business day to transit times if additional customs clearance time is required, if the location is a beyond destination, or if originating from a Light Black location or Hawaii.

An Advance Destination charge may be assessed for deliveries outside the standard delivery area. For further information please call 1-800-ABX-INTL. (1-800-229-4685) Subject to change without notice.

SCHEDULE B

AIRBORNE EXPRESS
applicable to "Z" IDC's only

ATTACHMENT A
PAGE 2

TO THE FOLLOWING COUNTRIES/CITIES:	USE REGION	TRANSIT DAYS	COLLECT SERVICE	FREE DOMICILE	TO THE FOLLOWING COUNTRIES/CITIES:	USE REGION	TRANSIT DAYS	COLLECT SERVICE	FREE DOMICILE
Kuwait	K	3	YES	YES	Saba	I	2		
Kyrgyzstan (Kirghizia)	M	7			Saipan	F	5		
Laos	E	4			Samoa	F	5		
Latvia	M	3			San Marino	B	2	YES	YES
Lebanon	K	3	YES	YES	Sao Tome & Principe	NO SVC			
Lesotho	O	4			Saudi Arabia	K	3	YES	YES
Liberia	O	5			Scotland, U.K.	A	2	YES	YES
Libya	NO SVC				Senegal	O	4		
Liechtenstein	A	3			Serbia	NO SVC			
Lithuania	M	3			Seychelles	O	3		
Luxembourg	A	2	YES	YES	Sierra Leone	O	6		
Macau	C	3			Singapore	C	3	YES	YES
Macedonia	L	3			Slovakia	L	2		
Madagascar	O	4			Slovenia	L	3		
Madeira Is (Portugal)	B	5			Solomon Is	F	7		
Malagasy	O	5			Somalia	NO SVC			
Malawi	O	3			South Africa	N	3	YES	YES
Malaysia	E	4		YES	Spain	B	2	YES	YES
Maldives	N	6			Sri Lanka	N	3	YES	YES
Mali	O	4			St Barthelemy Is	I	2		
Malta	N	3			St Eustatius Is	I	2		
Marshall Islands	NO SVC				St John	I	2		
Martinique	I	2			St Kitts & Nevis	I	2	*YES	
Mauritania	O	5			St Lucia	I	2		
Mauritius	O	4			St Maarten	I	2		
Mayotte	NO SVC				St Vincent / Grenadine	I	2		
Mexico	H	1	YES	YES	Sudan	NO SVC			
Micronesia	NO SVC				Surinam	J	7		
Moldova	M	5			Swaziland	O	4		
Monaco	A	3			Sweden	B	2	YES	YES
Mongolia	NO SVC				Switzerland	B	2	YES	YES
Montserrat	NO SVC				Syria	K	3	YES	YES
Morocco	O	3			Tahiti	F	8		
Mozambique	O	4			Taiwan	C	3	YES	YES
Myanmar (Burma)	NO SVC				Tajikistan	M	5		
Namibia	O	4			Tanzania	O	4		
Nauru	F	6			Thailand	E	3	YES	YES
Nepal	N	6			Togo	O	5		
Netherlands	A	2	YES	YES	Tonga	F	6		
Netherlands Antilles	I	2			Trinidad & Tobago	I	2	*YES	YES
New Caledonia	F	5		YES	Tunisia	O	3		
New Zealand	F	3	YES	YES	Turkey	K	3	YES	YES
Nicaragua	J	2		YES	Turkmenistan	M	7		
Niger	O	4			Turks & Caicos	I	4		
Nigeria	O	4			Tuvalu	F	6		
Northern Ireland, UK	A	2	YES	YES	Uganda	O	3		
Northern Mariana Is	F	5			Ukraine	M	6		
Norway	B	2	YES	YES	United Arab Emirates	K	3	YES	YES
Oman	K	3	YES	YES	United Kingdom	A	2	YES	YES
Pakistan	N	4	YES	YES	Uruguay	J	2	*YES	YES
Palau	NO SVC				Uzbekistan	M	5		
Panama	J	2	*YES	YES	Vanuatu	F	5		
Papua New Guinea	F	5			Vatican City	A	3	YES	YES
Paraguay	J	3	*YES	YES	Venezuela	J	2	*YES	YES
Peru	J	2	*YES	YES	Vietnam	E	4	*YES	
Philippines	E	3	YES	YES	Wake Island	NO SVC			
Poland	L	2	YES		Wales, U.K.	A	2	YES	YES
Portugal	B	2	YES	YES	Wallis & Futina Islands	NO SVC			
Qatar	K	3	YES	YES	Western Sahara	NO SVC			
Reunion Island	O	4			Yemen	K	3	YES	YES
Romania	L	3			Yugoslavia	L	4		
Russia	M	3			Zaire (see Congo, Dem Rep of)				
Rwanda	O	4			Zambia	O	3		
					Zimbabwe	O	3		

AIRBORNE EXPRESS

INTERNATIONAL EXPRESS ACCESSORIAL CHARGES

Certificate of Origin / Commercial Invoice Copy:	[**]
* Free Domicile Fee:	[**]
Hard-Copy Proof-Of-Delivery Fee:	[**]
* Advance-Destination/Beyond Fee:	[**]
Address Correction Service Fee: (Per Correction)	[**]
Change of Airbill Tender: (Per Airbill)	[**]
Non-Use of Account # Fee: (Per Shipment)	[**]
Customs Mis-Declaration Fee: (Per Shipment)	[**]
* International Express Dim Rule:	166
* Weight Limit:	70 Lbs. Per Piece
Maximum Length:	62 Inches

Length plus Girth, as defined by Longest Side + (2 x Shorter Side) + (2 x Remaining Side), must be 108 inches or less.

In the event of an increase in the cost of fuel or of the imposition of any new or additional tax or fee on the transportation of shipments by air or on the surface transportation of such shipments which is incidental to their movement by Airborne Express reserves the right to increase its rates to include such additional cost.

Non - U.S. origin rates are quoted in USD and are subject to fluctuation based on Wall Street Journal exchange rates.

Additional charges may apply for complex customs clearance procedures which include, but are not limited to the following: clearance procedures involving a government agency other than Customs, Customs Bonds, Drawbacks, Formal Entries, Live Entries, Marking Attendance, Temporary Import Bonds (T.I.B.).

* Free Domicile Fee and Advance-Destination fees do not apply to Canada.
Canadian Dim Rule is 194 and maximum per piece weight is 99 lbs.

P C CONNECTION SERVICES

Canadian Service					
Lbs	Rate	Lbs	Rate	Lbs	Rate
Ltr (8 oz)	[**]	34	[**]	68	[**]
1	[**]	35	[**]	69	[**]
2	[**]	36	[**]	70	[**]
3	[**]	37	[**]	71	[**]
4	[**]	38	[**]	72	[**]
5	[**]	39	[**]	73	[**]
6	[**]	40	[**]	74	[**]
7	[**]	41	[**]	75	[**]
8	[**]	42	[**]	76	[**]
9	[**]	43	[**]	77	[**]
10	[**]	44	[**]	78	[**]
11	[**]	45	[**]	79	[**]
12	[**]	46	[**]	80	[**]
13	[**]	47	[**]	81	[**]
14	[**]	48	[**]	82	[**]
15	[**]	49	[**]	83	[**]
16	[**]	50	[**]	84	[**]
17	[**]	51	[**]	85	[**]
18	[**]	52	[**]	86	[**]
19	[**]	53	[**]	87	[**]
20	[**]	54	[**]	88	[**]
21	[**]	55	[**]	89	[**]
22	[**]	56	[**]	90	[**]
23	[**]	57	[**]	91	[**]
24	[**]	58	[**]	92	[**]
25	[**]	59	[**]	93	[**]
26	[**]	60	[**]	94	[**]
27	[**]	61	[**]	95	[**]
28	[**]	62	[**]	96	[**]
29	[**]	63	[**]	97	[**]
30	[**]	64	[**]	98	[**]
31	[**]	65	[**]	99	[**]
32	[**]	66	[**]	100/CWT	[**]
33	[**]	67	[**]		

Rates subject to change without notice and void if residential shipments exceed [%]** of total shipments. Reselling is prohibited.

Rates and charges are in US dollars. Rates apply Letter-99 lbs. door-to-door. Shipments over 100 lbs. do not include pick-up or delivery in Canada.

Rates apply when shipment is billed to sender from the contiguous US and Puerto Rico, to all points in Canada. Rates also apply from Canada when billed to recipients in the contiguous US and Puerto Rico.

For points in Alaska and Hawaii, an additional charge of \$[%]** for Letter Express, \$[%]** for 1-99 lbs. and \$[%]** cwt. for packages weighing over 99lbs. will be added to the Canadian rates.

Canadian Rates are brokerage free and exclude customs duties if applicable to dutiable shipments.

Recipient agrees not to disclose this information to any third party.

AGREEMENT AND PLAN OF MERGER

by and among

PC Connection, Inc.,

Boca Acquisition Corp.,

MoreDirect, Inc.

and

the Stockholders of MoreDirect, Inc. set forth on Schedule I

Dated as of March 25, 2002

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Exhibit D	Form of Buyer Guaranty
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Exhibit F	Form of Proprietary Information, Inventions and Confidentiality Agreement
Exhibit G	Form of Company Legal Opinion
Exhibit H	Form of Buyer Legal Opinion

Schedule I Company Stockholders

Schedule A Earnout Consideration

Company Disclosure Schedule

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AAA	Section 8.8(a)
Adjusted Company Share Amount	Section 1.6(b)
Affiliate	Section 2.15(viii)
Agreed Amount	Section 6.3(c)
Agreement	Preamble
Annualized Run Rate	Section 1.7(c)
Arbitrators	Section 8.8(a)
Articles of Merger	Preamble
Bugs	Section 2.13(d)
Business Vendors	Section 2.25(b)
Buy-Out Amount	Section 1.7(c)
Buyer	Preamble
Buyer Certificate	Section 5.3(d)
Buyer Disclosure Schedule	Article III
Buyer Guaranty	1.3(f)
Buyer's Election Notice	Section 1.7(c)
CERCLA	Section 2.23(a)
Claim Notice	Section 6.3(b)
Claimed Amount	Section 6.3(b)
Closing	Section 1.2
Closing Date	Section 1.2
Code	Section 2.8(a)(iii)
Company	Preamble
Company Capital Stock	Section 1.6(a)
Company Certificate	Section 5.2(e)
Company Disclosure Schedule	Article II
Company Insider	Section 2.31
Company Intellectual Property	Section 2.12(a)
Company Material Adverse Effect	Section 2.6
Company Obligations	Section 2.20(a)
Company Option	Section 1.8
Company Securities	Section 1.6(b)
Company Stockholders	Preamble
Company Warrant	Section 1.8
Contingent Note	1.3(f)
Controlling Party	Section 6.3(a)
Damages	Section 6.1
Dissenting Shares	Section 1.10(a)
Earnout Consideration	Section 1.7(b)
EBIT	Section 1.7(a)(i)
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Terms - - - - -	Reference in Agreement -----
Employee Benefit Plan	Section 2.22(a)(i)
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ERISA	Section 2.22(a)(ii)
ERISA Affiliate	Section 2.22(a)(iii)
Escrow Agent	Section 1.3(e)
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Escrow Amount	Section 1.3(e)
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Merger Consideration	Section 1.6
Most Recent Balance Sheet	Section 2.5
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Non-Controlling Party	Section 6.3(a)
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Outside Date	Section 7.1(b)
Owned Software	Section 2.13(a)
Parties	Preamble
Permits	Section 2.29
Reasonable Best Efforts	Section 4.1
Response	Section 6.3(c)
Requisite Stockholder Approval	Section 2.3
Second Fiscal Year Date	Section 6.5(a)
Section 338(h)(10) Election	Section 4.6
Securities Act	Section 2.2(c)
Security Interest	Section 2.4
Software	Section 2.13(a)

Terms - - - - -	Reference in Agreement -----
Standard Terms	Section 2.20(a)
Stockholders Representative	Section 1.5(a)
Surviving Corporation	Section 1.1
Tax Returns	Section 2.8(a)(ii)
Taxes	Section 2.8(a)(i)
Transitory Subsidiary	Preamble
Vendor Relationships	Section 2.26

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of March 25, 2002, is entered into by and among PC Connection, Inc., a Delaware corporation (the "Buyer"), Boca Acquisition Corp., a Florida corporation and a wholly owned subsidiary of the Buyer (the "Transitory Subsidiary"), Russell L. Madris, as sole stockholder of the Company and the other persons set forth on Schedule I attached hereto who shall become stockholders of the Company prior to the Effective Time (as defined below) (Mr. Madris and such other persons are collectively referred to as the "Company Stockholders") and MoreDirect, Inc., a Florida Corporation (the "Company", together with the Buyer, the Transitory Subsidiary and the Company Stockholders, the "Parties").

WHEREAS, the boards of directors of the Buyer and the Company deem it advisable and in the best interests of each corporation and their respective shareholders that the Buyer acquire the Company in order to advance the long-term business interests of the Buyer and the Company; and

WHEREAS, the acquisition of the Company shall be effected through a merger (the "Merger") of the Transitory Subsidiary with and into the Company in accordance with the terms of this Agreement and the laws of the State of Florida including the Articles of Merger attached hereto as Exhibit A (the "Articles of Merger"), and the Florida Business Corporation Act (the "FBCA"), as a result of which the Company shall become a wholly owned subsidiary of the Buyer;

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth below, the Parties agree as follows:

ARTICLE I THE MERGER

1.1 The Merger. Upon and subject to the terms and conditions of this Agreement and in accordance with Section 607.1101 of the FBCA, the Transitory Subsidiary shall merge with and into the Company at the Effective Time (as defined below). From and after the Effective Time, the separate corporate existence of the Transitory Subsidiary shall cease and the Company shall continue as the surviving corporation in the Merger (the "Surviving Corporation"). The "Effective Time" shall be the time at which the Company and the Transitory Subsidiary file the Articles of Merger in accordance with Section 607.1105 of the FBCA with the Department of State of the State of Florida (or such later time as the Company and the Transitory Subsidiary shall specify in the Articles of Merger). The Merger shall have the effects set forth in Section 607.1106 of the FBCA.

1.2 The Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Hale and Dorr LLP in Boston, Massachusetts, commencing at 9:00 a.m. local time on such mutually agreeable date as soon as practicable (and in any event not later than three business days) after the satisfaction or waiver of all conditions

(excluding the delivery of any documents to be delivered at the Closing by any of the Parties) set forth in Article V hereof (the "Closing Date").

1.3 Actions at the Closing. At the Closing:

(a) the Company shall deliver to the Buyer and the Transitory Subsidiary the various certificates, instruments and documents referred to in Section 5.2;

(b) the Buyer and the Transitory Subsidiary shall deliver to the Company the various certificates, instruments and documents referred to in Section 5.3;

(c) the Company and the Transitory Subsidiary shall file with the Department of State of the State of Florida the Articles of Merger;

(d) the Company Stockholders shall deliver to the Buyer the certificate(s) representing their respective Company Capital Stock (as defined below) and all forms necessary for a Section 338(h)(10) Election (as defined in Section 4.7) forms;

(e) the Buyer, the Company Stockholders and State Street Bank and Trust Company (the "Escrow Agent") shall execute and deliver the Escrow Agreement attached hereto as Exhibit B (the "Escrow Agreement") and the Buyer shall deliver to the Escrow Agent \$10,000,000 (the "Escrow Amount") being placed in escrow on the Closing Date pursuant to Section 1.14;

(f) the Buyer shall pay to the Company Stockholders the Initial Merger Consideration (as defined in Section 1.6 below); and

(g) The Surviving Corporation shall deliver to the Stockholders Representative, as nominee for the Company Stockholders, a contingent note in the form attached hereto as Exhibit C (the "Contingent Note") representing the right to receive the Earnout Consideration (as defined below) and the Buyer shall deliver to the Stockholders Representative, as nominee for the Company Stockholders, a guaranty of the Contingent Note in the form attached hereto as Exhibit D (the "Buyer Guaranty").

1.4 Intentionally Omitted.

1.5 Stockholders Representative.

(a) In order to efficiently administer or effect the waiver of any condition to the obligations of the Company Stockholders to consummate the transactions contemplated hereby, and any amendment to this Agreement, the Company Stockholders hereby designate Russell Madris as their representative and agent under this Agreement (the "Stockholders Representative").

(b) The Company Stockholders, solely in their capacity as stockholders of the Company, hereby authorize the Stockholders Representative (i) to take all action necessary in connection with the waiver of any condition to the obligations of the Company Stockholders to consummate the transactions contemplated hereby, (ii) to give and receive all notices required to

be given under the Agreement, (iii) settle any and all disputes between the Company Stockholders and the Buyer or the Surviving Corporation which may arise from time to time as a result of the transactions contemplated hereby, (iv) to execute any and all government and other forms relating to Taxes (as defined in Section 2.8(a)(i)) and (v) to take any and all additional action as is contemplated to be taken by or on behalf of the Company Stockholders by the terms of this Agreement, including, without limitation, Article VI hereof. Each of the Company Stockholders agrees to individually perform any of the above obligations if requested by the Buyer.

(c) In the event that the Stockholders Representative dies, becomes unable to perform his responsibilities hereunder or resigns from such position, Company Stockholders (or their successors in the case of any Company Stockholder that dies) holding, prior to the Closing, a majority of the Common Shares as set forth on Schedule I attached hereto shall select another representative to fill such vacancy and such substituted representative shall be deemed to be the Stockholders Representative for all purposes of this Agreement.

(d) All decisions and actions by the Stockholders Representative hereunder shall be binding upon all of the Company Stockholders, and no Company Stockholder shall have the right to object, dissent, protest or otherwise contest the same.

(e) By their adoption of this Agreement and the approval of the Merger, the Company Stockholders agree that:

(i) the Surviving Corporation shall be able to rely conclusively on the instructions and decisions of the Stockholders Representative as to any actions required to be taken by the Stockholders Representative hereunder, and no Party shall have any cause of action against the Surviving Corporation for any action taken by the Surviving Corporation in reliance upon the instructions or decisions of the Stockholders Representative;

(ii) all actions, decisions and instructions of the Stockholders Representative shall be conclusive and binding upon all of the Company Stockholders and no Company Stockholder shall have any cause of action against the Stockholders Representative for any action taken or omitted, decision made or instruction given by the Stockholders Representative arising out of or in connection with the acceptance or administration of his duties hereunder, except for fraud or willful breach of this Agreement by the Stockholders Representative;

(iii) the provisions of this Section 1.5 are independent and severable, are irrevocable and coupled with an interest and shall be enforceable notwithstanding any rights or remedies that any Company Stockholder may have in connection with the transactions contemplated by this Agreement;

(iv) remedies available at law for any breach of the provisions of this Section 1.5 are inadequate; therefore, the Surviving Corporation and the Company shall be entitled to temporary and permanent injunctive relief without the

necessity of proving damages if either the Surviving Corporation or the Company brings an action to enforce the provisions of this Section 1.5; and

(v) the provisions of this Section 1.5 shall be binding upon the executors, heirs, legal representatives and successors of each Company Stockholder, and any references in this Agreement to a Company Stockholder or the Company Stockholders shall mean and include the successors to the Company Stockholders' rights hereunder, whether pursuant to testamentary disposition, the laws of descent and distribution or otherwise.

(f) All fees and expenses incurred by the Stockholder Representative after the Closing shall be the responsibility of the Company Stockholders on a pro rata basis and the Stockholders Representative shall have the right to reimbursement of such fees and expenses from any amounts to be distributed to the Company Stockholders.

(g) The Company Stockholders shall severally indemnify on a pro rata basis the Stockholders Representative and hold him harmless against any loss, liability or expense incurred without fraud or willful breach of this Agreement on the part of the Stockholders Representative and arising out of or in connection with the acceptance or administration of his duties hereunder. Any amounts payable to the Stockholders Representative hereunder shall be the responsibility of the Company Stockholders on a pro rata basis.

1.6 Consideration. As consideration for the Company Capital Stock and the covenants, promises and obligations contained in this Agreement, the Buyer shall pay to the Company Stockholders an aggregate amount equal to the Merger Consideration (as defined below). For purposes of this Agreement, the "Merger Consideration" shall equal the sum of (i) \$30,000,000 less an amount equal to the aggregate distributions of any cash or property to the Company Stockholders between January 1, 2002 and the Effective Time made other than pursuant to clauses (A)(i) or (A)(ii) of Section 4.2(a) of this Agreement (such amount, the "Initial Merger Consideration"), (ii) the Escrowed Consideration (as defined below) and (iii) the Earnout Consideration (as defined below).

(a) At the Effective Time, each then outstanding share of common stock of the Company (collectively, the "Company Capital Stock") (other than shares of Company Capital Stock to be cancelled pursuant to Section 1.6(c) and Dissenting Shares) shall cease to be an existing and issued share and shall become and be converted into, by virtue of the Merger and without any action on the part of the Parties or the holder thereof, the right to receive (i) an amount equal to (x) the Initial Merger Consideration divided by (y) the Adjusted Company Share Amount (as defined in Section 1.6(b)) (the "Initial Per Share Merger Consideration") and (ii) the Escrowed Consideration and the Earnout Consideration on the terms and subject to the conditions set forth in Section 1.7

(b) The "Adjusted Company Share Amount" shall be the sum of the aggregate number of shares of Company Capital Stock outstanding immediately prior to the Effective Time and no shares underlying outstanding Company Options (as defined below) and Company Warrants (as defined below). The Company Capital Stock, the Company Options and the Company Warrants were sometimes referred to herein as the "Company Securities".

(c) Each share of Company Capital Stock issued and outstanding immediately prior to the Effective time owned by Company (or held in Company's Treasury) shall automatically be cancelled at the Effective Time and no conversion shall be made in respect thereof.

1.7 Contingent Payments.

(a) In addition to the Initial Per Share Merger Consideration paid at the Closing, the Escrow Agent (pursuant to the Escrow Agreement) shall distribute to the Company Stockholders the "Escrowed Consideration" (as determined pursuant to this Section 1.7(a)) plus accrued interest on the Escrowed Consideration less fees due to the Escrow Agent at the times, in the manner, and to the extent the Escrowed Consideration is earned pursuant to the following terms:

(i) an amount equal to \$5.0 million, if the Surviving Corporation maintains earnings before income tax (determined in accordance with GAAP (as defined in Section 2.5) applied on a basis consistent with GAAP as in effect and as applied by the Company immediately prior to the Closing) ("EBIT") of at least \$11.0 million for Surviving Corporation's 2002 Fiscal Year. For purposes of this Section 1.7, the Surviving Corporation's "Fiscal Year" shall mean the period commencing on January 1 and ending on December 31 of the relevant year.

(ii) an amount equal to the Escrow Amount if, for the two year period comprising the Surviving Corporation's 2002 Fiscal Year and 2003 Fiscal Year (the "Escrow Period"), the Surviving Corporation maintains an EBIT of at least \$22.0 million in the aggregate.

(iii) if no payment is made pursuant to the foregoing clause (ii), and if during the Escrow Period the Surviving Corporation (x) maintains an EBIT of at least \$19.8 million in the aggregate and (y) the Surviving Corporation's EBIT for the 2003 Fiscal Year is greater than the EBIT for the 2002 Fiscal Year, then an amount equal to the product of (A) the Escrow Amount and (B) a fraction, the numerator of which is the EBIT in the aggregate for the Escrow Period and the denominator of which is \$22.0 million.

Any payments made pursuant to the foregoing clause (i) shall be credited against any payments required to be made pursuant to clause (ii) or (iii) above. Any payments made pursuant to the foregoing clauses (i), (ii) and (iii) shall be made at the times and in the manner set forth in the Escrow Agreement, subject to the indemnification provisions of Article VI hereof. The determination of EBIT for each Fiscal Year shall be made in accordance with Section 1.7(e) below.

Each holder of Company Securities shall be entitled to receive, with respect to each share of Company Capital Stock, an amount equal to (x) the Escrowed Consideration divided by (y) the Adjusted Company Share Amount.

(b) In addition to the Per Share Merger Consideration paid at the Closing and the Escrowed Consideration described in Section 1.7(a) above, the Buyer (or any successor by

operation of law or otherwise) shall distribute to the Company Stockholders the "Earnout Consideration" (as determined pursuant to this Section 1.7(b)) at the times, in the manner, and to the extent the Earnout Consideration is earned pursuant to the following terms:

(i) an amount equal to that set forth on Schedule A if, for the Surviving Corporation's 2002 Fiscal Year, the Surviving Corporation maintains EBIT levels as set forth on Exhibit A.

(ii) an amount equal to that set forth on Schedule A if, for the Surviving Corporation's 2003 Fiscal Year, the Surviving Corporation maintains EBIT levels as set forth on Exhibit A.

(iii) an amount equal to that set forth on Schedule A if, for the Surviving Corporation's 2004 Fiscal Year, the Surviving Corporation maintains EBIT levels as set forth on Exhibit A.

Within five business days after the determination of the Surviving Corporation's EBIT for each Fiscal Year through December 31, 2004 (pursuant to the provisions of Section 1.7(e) below), the Buyer shall make payments of the Earnout Consideration payable pursuant to the foregoing clauses (i), (ii) and (iii) to the Company Stockholders by check or wire transfer. Such payments shall be made pursuant to instructions delivered by the Stockholders Representative at least two business days before the required payment date. Each Company Stockholder shall be entitled to receive, with respect to each share of Company Capital Stock, an amount equal to (x) the Earnout Consideration so payable divided by (y) the Adjusted Company Share Amount. All payments of Earnout Consideration are subject to the indemnification provisions of Article VI hereof.

Schedule A attached to this Agreement sets forth examples of Earnout Consideration payments.

To the extent that there is a difference between (x) the Escrow Amount and (y) the Escrowed Consideration, such difference shall be available to satisfy any Earnout Consideration payable hereunder on or before the Termination Date of the Escrow Agreement (as such term is defined in the Escrow Agreement).

(c) At any time after the date hereof, the Buyer may elect to satisfy its obligations in full concerning the Earnout Consideration described in Section 1.7(b) above by paying the Company Stockholders the lump sum payment as set forth below (the "Buy-Out Amount"). The Buyer shall provide the Stockholders Representative notice (the "Buyer's Election Notice") of its election under this Section 1.7(c) and shall distribute the respective Buy-Out Amount within 60 days of providing such notice to the Stockholders Representative. In the instance where the Buyer elects to pay the respective Buy-Out Amount to the Company Stockholders pursuant to this Section 1.7(c), neither the Buyer nor the Surviving Corporation shall be obligated to make any additional payments to the Company Stockholders pursuant to Section 1.7(b) above for the Fiscal Year in which the Buy-Out Amount was paid or for any remaining Fiscal Years thereafter.

(i) If the Buyer's Election Notice is delivered on or after the date of this Agreement but prior to July 1, 2002, the Buy-Out Amount shall equal \$15,446,000.

(ii) If the Buyer's Election Notice is delivered on or after July 1, 2002 but prior to January 1, 2003, the Buy-Out Amount shall equal the sum of (x) the lesser of (A) the Earnout Consideration for Fiscal Year 2002 set forth on Schedule A attached hereto payable based on the EBIT Annualized Run Rate (as defined below) and (B) \$9,488,000 and (y) \$10,259,000.

(iii) If the Buyer's Election Notice is delivered on or after January 1, 2003 but prior to July 1, 2003, the Buy-Out Amount shall equal \$11,451,000.

(iv) If the Buyer's Election Notice is delivered on or after July 1, 2003 but prior to January 1, 2004, the Buy-Out Amount shall equal the sum of (x) the lesser of (A) the Earnout Consideration for Fiscal Year 2003 set forth on Schedule A attached hereto payable based on the EBIT Annualized Run Rate and (B) \$10,911,000 and (y) \$5,487,000.

(v) If the Buyer's Election Notice is delivered on or after January 1, 2004 but prior to July 1, 2004, the Buy-Out Amount shall equal \$6,859,000.

(vi) If the Buyer's Election Notice is delivered on or after July 1, 2004 but prior to January 1, 2005, the Buy-Out Amount shall equal the lesser of (A) the Earnout Consideration for Fiscal Year 2004 set forth on Schedule A attached hereto payable based on the EBIT Annualized Run Rate and (B) \$12,547,000.

For purposes of this Section 1.7(c), the "EBIT Annualized Run Rate" shall mean an amount determined by multiplying (x) the EBIT for the number of full calendar months prior to the date of the Buyer's Election Notice that have elapsed since the beginning of the Fiscal Year in which such Buyer's Election Notice is given (the "Elapsed Months") by (y) a fraction, the numerator of which is 12 and the denominator of which is the number of Elapsed Months by (z) 90%.

(d) In the event the Buyer or the Surviving Corporation does not make timely payments to the Company Stockholders of the Earnout Consideration pursuant to Section 1.7(b) above, in the absence of any dispute pursuant to Section 1.7(e) below, the Stockholders Representative shall have the right first to make a claim against the Escrow Amount for all amounts of the Earnout Consideration due the Company Stockholders as set forth in the last paragraph of Section 1.7(b) above and in Section 3(d) of the Escrow Agreement and, to the extent and only to the extent the Escrow Amount is insufficient to satisfy in full all amounts of the Earnout Consideration due the Company Stockholders, to demand payment pursuant to that certain contingent note in the form attached hereto as Exhibit C.

(e) The Buyer agrees to prepare or have prepared calculations of the Surviving Corporation's EBIT for each Fiscal Year through December 31, 2004 and to deliver such EBIT calculations to the Stockholders Representative on or before the first business day in March of the following year. The Stockholders Representative shall deliver to the Buyer, within

20 days after delivery of such calculations by the Buyer to the Stockholders Representative, either a notice indicating that the Stockholders Representative accepts such EBIT calculations or a statement describing the Stockholders Representative's objections to such EBIT calculations, which statement of objections shall describe in detail the specific nature and amount of each objection and shall state in detail all bases upon which the Stockholders Representative believes such EBIT calculations are not in conformity with the requirements set forth in subsection 1.7(a)(i). If the Stockholders Representative (x) delivers to the Buyer a notice accepting such EBIT calculation or (y) fails to deliver a statement of objections within such 20-day period, then, effective as of either the date of delivery of such notice of acceptance or as of the close of business on such 20th day, such EBIT calculation shall be deemed to be accepted by the Stockholders Representative. If the Stockholder Representative timely objects to such EBIT calculation, such objection shall be resolved as follows:

(i) The Buyer and the Stockholders Representative shall first use reasonable efforts to resolve such objections.

(ii) If the Buyer and the Stockholders Representative are able to resolve such objections within 20 days after delivery to the Stockholders Representative of such statement of objections, the Buyer and the Stockholders Representative shall, within 30 days after delivery of such statement of objections, jointly prepare and sign a statement setting forth the EBIT for such Fiscal Year, which amount shall reflect the resolution of objections agreed to by the Buyer and the Stockholders Representative. The Buyer and the Stockholders Representative may then submit, if necessary, such jointly prepared and signed statement to the Escrow Agent authorizing the Escrow Agent to make pro rata payments to the Company Stockholders.

(iii) If the Buyer and the Stockholders Representative do not reach a resolution of all objections set forth on the Stockholders Representative's statement of objections within 20 days after delivery of such statement of objections, the Buyer and the Stockholders Representative shall, within 30 days after the expiration of such 20-day period, (A) jointly prepare and sign a statement setting forth (1) those objections (if any) that the Buyer and the Stockholders Representative have resolved and the resolution of such objections and (2) those objections that the Buyer and the Stockholders Representative did not resolve (the "Unresolved Objections") and (B) engage an accounting firm of national standing which has not previously provided professional services to either the Buyer or the Company (the "Neutral Accountant") to resolve the Unresolved Objections.

(iv) The Buyer and the Stockholders Representative shall jointly submit to the Neutral Accountant, within 10 days after the date of the engagement of the Neutral Accountant (as evidenced by the date of the engagement agreement), a copy of the EBIT calculations prepared by the Buyer, a copy of the statement of objections delivered by the Stockholders Representative to the Buyer, and the joint statement referred to in clause (iii)(A) above. Each of the Buyer and the Stockholders Representative shall submit to the Neutral Accountant (with a copy delivered to the other on the same day), within 30 days after the date

of the engagement of the Neutral Accountant, a memorandum (which may include supporting exhibits) setting forth their respective positions on the Unresolved Objections. Each of the Buyer and the Stockholders Representative may (but shall not be required to) submit to the Neutral Accountant (with a copy delivered to the other on the same day), within 60 days after the date of the engagement of the Neutral Accountant, a memorandum responding to the initial memorandum submitted to the Neutral Accountant by the other. Unless requested by the Neutral Accountant in writing, neither the Buyer nor the Stockholders Representative may present any additional information or arguments to the Neutral Accountant, either orally or in writing.

(v) The Buyer and the Stockholders Representative shall instruct the Neutral Accountant that (A) the scope of its review and authority shall be limited to resolving the Unresolved Objections, (B) in resolving the Unresolved Objections, the Neutral Accountant shall accept each of the values set forth on the EBIT calculations prepared by the Buyer unless the Stockholders Representative demonstrates that such value is contrary to the requirements of the determination of EBIT set forth in Section 1.7(a)(i) (in which case its resolution of each Unresolved Objection shall consist of the determination of an appropriate value for each item that is the subject of an Unresolved Objection, which value shall be equal to one of, or between, the values proposed by the EBIT calculation prepared by the Buyer and EBIT for the relevant Fiscal Year in its statement of objections from the Stockholders Representative), and (C) issue a ruling which sets forth the resolution of each Unresolved Objection and includes a statement setting forth the EBIT for the Fiscal Year, reflecting the Neutral Accountant's resolution of the Unresolved Objections.

(vi) The resolution by the Neutral Accountant of the Unresolved Objections shall be conclusive and binding upon the Buyer and the Stockholders Representative. The Buyer and the Stockholders Representative agree that the procedure set forth in this Section 1.7(e) for resolving disputes with respect to the EBIT calculations shall be the sole and exclusive method for resolving any such disputes; provided that this provision shall not prohibit any party from instituting litigation to enforce the ruling of the Neutral Accountant. The Neutral Accountant may then submit, if necessary, a statement setting forth the EBIT calculation for the relevant Fiscal Year to the Escrow Agent.

(vii) The Buyer and the Stockholders Representative shall share equally the fees and expenses of the Neutral Accountant for its services under this Section 1.7(e).

1.8 Stock Options and Warrants. Company shall cause each stock option that is then outstanding under the stock option plans and agreements of the Company, (individually, a "Company Option" and collectively, the "Company Options"), and the warrant that is then outstanding (the "Company Warrant") to be terminated immediately prior to the Effective Time.

1.9 Closing of the Company's Transfer Books. At the Effective time, holders of certificates or instruments representing Company Securities that were outstanding immediately prior to the Effective Time shall cease to have any rights as stockholders or securityholders of the Company, and the stock transfer books of the Company shall be closed with respect to all such securities outstanding immediately prior to the Effective Time. No further transfer of any such securities shall be made on such stock transfer books after the Effective Time.

1.10 Appraisal Rights.

(a) Notwithstanding any provision of this Agreement to the contrary, the shares of any holder of Company Capital Stock who has demanded and perfected appraisal rights for such shares in accordance with the FBCA and who, as of the Effective Time, has not effectively withdrawn or forfeited such appraisal rights ("Dissenting Shares"), shall not be converted into or represent a right to receive the Merger Consideration pursuant to Section 1.6, but the holder thereof shall only be entitled to such rights as are granted by the FBCA.

(b) Notwithstanding the foregoing, if any holder of Company Capital Stock who demands appraisal of such shares under the FBCA shall effectively withdraw or forfeit the right to appraisal, then, as of the later of the Effective Time and the occurrence of such event, such holder's shares shall automatically be converted into and represent only the right to receive the Merger Consideration, without interest thereon.

(c) The Company shall give Buyer (i) prompt notice of any written demands for appraisal of any Company Capital Stock, withdrawals of such demands, and any other instruments served pursuant to the FBCA and received by the Company which related to any such demand and for appraisal and (ii) the opportunity to participate in all negotiations and proceedings which take place prior to the Effective Time with respect to demands for appraisal under the FBCA. The Company shall not, except with the prior written consent of the Buyer or as may be required by applicable law, voluntarily make any payment with respect to any demands for appraisal of Company Capital Stock or offer to settle or settle any such demands or approve any withdrawal of such demands.

1.11 Tax Consequences. For federal income tax purposes, the Merger is intended to constitute a taxable transaction.

1.12 Accounting Treatment. The Parties intend that the Merger will be treated as a purchase for accounting purposes.

1.13 Further Action. If, at any time after the Effective Time, any further action is determined by the Buyer to be necessary or desirable to carry out the purposes of this Agreement or to vest the Surviving Corporation or the Buyer with full right, title and possession of and to all rights and property of the Transitory Subsidiary and the Company, the officers and directors of the Surviving Corporation and the Buyer shall be fully authorized (in the name of the Transitory Subsidiary or in the name of the Company) to take such action.

1.14 Escrow. On the Closing Date, the Buyer shall deliver to the Escrow Agent the Escrow Amount. The Escrow Amount shall be available to satisfy the obligations to pay the Escrowed Consideration upon the terms set forth in Section 1.7 and to satisfy any indemnity

obligations under Article VI hereof and shall be held by the Escrow Agent under the Escrow Agreement pursuant to the terms of Section 1.7(a) hereof and the terms thereof. The Escrow Amount shall be held as a trust fund and shall not be subject to any lien, attachment, trustee process or any other judicial process of any creditor of any Party, and shall be held and disbursed solely for the purposes and in accordance with the terms of the Escrow Agreement.

1.15 Articles of Incorporation, By-laws and Officers and Directors.

(a) The Articles of Incorporation of the Surviving Corporation immediately following the Effective Time shall be the same as the Articles of Incorporation of the Transitory Subsidiary immediately prior to the Effective Time, except that (1) the name of the corporation set forth therein shall be changed to the name of the Company and (2) the identity of the incorporator shall be deleted.

(b) The By-laws of the Surviving Corporation immediately following the Effective Time shall be the same as the By-laws of the Transitory Subsidiary immediately prior to the Effective Time, except that the name of the corporation set forth therein shall be changed to the name of the Company.

(c) The officers of the Surviving Corporation immediately following the Effective Time shall be the same as the officers of the Company immediately prior to the Effective Time. The directors of the Surviving Corporation immediately following the Effective Time shall be the same as the directors of the Transitory Subsidiary immediately prior to the Effective Time, except that Russell Madris shall be elected to serve as a director of the Surviving Corporation after the Effective Time.

1.16 Taxes. Notwithstanding any other provision in this Agreement, the Buyer or the Surviving Corporation, as applicable, shall have the right to withhold or to cause the Escrow Agent to withhold Taxes (as defined below) from any payments to be made hereunder (including any payments to be made under the Escrow Agreement) if such withholding is required by law and to collect any necessary Tax forms from the Company Stockholders and employees.

ARTICLE II
REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Buyer and the Transitory Subsidiary that the statements contained in this Article II are true and correct as of the date hereof and will be true and correct as of the Closing Date, except as expressly set forth herein or in the disclosure schedule delivered by the Company to the Buyer and the Transitory Subsidiary on or before the date of this Agreement (the "Company Disclosure Schedule"). The Company Disclosure Schedule shall be arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs contained in this Article II.

2.1 Organization, Standing and Power; Subsidiaries.

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its

business as now being conducted, and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except for such failures to be so qualified that would not, individually or in the aggregate, have a Company Material Adverse Effect (as defined in Section 2.6).

(b) The Company does not now own, and has not in the past owned, directly or indirectly, any equity, membership, partnership or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity, membership, partnership or similar interest in, any corporation, partnership, joint venture, limited liability company or other business association or entity, whether incorporated or unincorporated. The Company has not, at any time, been a general partner or managing member of any general partnership, limited partnership or other entity.

(c) The Company has made available to the Buyer complete and accurate copies of the Articles of Incorporation and Bylaws of the Company.

(d) The Company has no subsidiaries.

2.2 Capitalization.

(a) The authorized capital stock of the Company consists of (i) 80,000,000 common shares, \$0.01 par value per share, of which, as of the date of this Agreement, 10,000,000 shares were issued and outstanding and 0 shares were held in the treasury of the Company, and (ii) 20,000,000 preferred shares, \$0.01 par value per share, of which, as of the date of this Agreement, no shares were issued and outstanding or held in the treasury of the Company.

(b) Section 2.2(b) of the Company Disclosure Schedule sets forth a complete and accurate list of (i) all stockholders of the Company, indicating the number and class or series of Company Capital Stock held by each stockholder and (for shares other than common shares) the number of common shares (if any) into which such Company Capital Stock are convertible, (ii) all outstanding Company Options and Company Warrants, indicating (A) the holder thereof, (B) the number and class or series of Company Capital Stock subject to each Company Option and Company Warrant and (for Company Capital Stock other than common shares) the number of common shares (if any) into which such Company Capital Stock are convertible, (C) the exercise price, date of grant, vesting schedule and expiration date for each Company Option or Company Warrant, and (D) any terms regarding the acceleration of vesting, and (iii) all stock option plans and other stock or equity-related plans of the Company. All of the issued and outstanding shares of Company Capital Stock are, and all common shares that may be issued upon exercise of Company Options or Company Warrants will be (upon issuance in accordance with their terms), duly authorized, validly issued, fully paid, nonassessable and free of all preemptive rights. Other than the Company Options and Company Warrants listed in Section 2.2(b) of the Company Disclosure Schedule, there are no outstanding or authorized options, warrants, rights, agreements or commitments to which the Company is a party or which are binding upon the Company providing for the issuance or redemption of any of its capital

stock. There are no outstanding or authorized stock appreciation, phantom stock or similar rights with respect to the Company.

(c) There are no agreements to which the Company is a party or by which it is bound with respect to the voting (including without limitation voting trusts or proxies), registration under the Securities Act of 1933, as amended (the "Securities Act"), or sale or transfer (including without limitation agreements relating to preemptive rights, rights of first refusal, co-sale rights or "drag-along" rights) of any securities of the Company. To the knowledge of the Company, there are no agreements among other parties, to which the Company is not a party and by which it is not bound, with respect to the voting (including without limitation voting trusts or proxies) or sale or transfer (including without limitation agreements relating to rights of first refusal, co-sale rights or "drag-along" rights) of any securities of the Company. All of the issued and outstanding Company Capital Stock were issued in compliance with applicable federal and state securities laws.

(d) No consent of the holders of Company Options and/or Company Warrants is required in connection with actions contemplated by this Agreement.

2.3 Authorization of Transaction. The Company has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations hereunder. The execution and delivery by the Company of this Agreement and the consummation by the Company of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action on the part of the Company, including the approval of the Merger by a majority of the votes represented by the outstanding Company Capital Stock entitled to vote on this Agreement and the Merger (the "Requisite Stockholder Approval"). This Agreement has been duly and validly executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

2.4 Noncontravention. Subject to the filing of the Articles of Merger as required by the FCBA, neither the execution and delivery by the Company of this Agreement, nor the consummation by the Company of the transactions contemplated hereby, will (a) conflict with or violate any provision of the Articles of Incorporation or By-laws of the Company, (b) require on the part of the Company any filing with, or any permit, authorization, consent or approval of, any court, arbitrational tribunal, administrative agency or commission or other governmental or regulatory authority or agency (a "Governmental Entity"), (c) conflict with, result in a breach of, constitute (with or without due notice or lapse of time or both) a default under, result in the acceleration of obligations under, create in any party the right to terminate, modify or cancel, or require any notice, consent or waiver under, any material contract or instrument to which the Company is a party or by which the Company is bound or to which any of their assets is subject, (d) result in the imposition of any Security Interest (as defined below) upon any assets of the Company or (e) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company or any of its properties or assets. For purposes of this Agreement: "Security Interest" means any mortgage, pledge, security interest, encumbrance, charge or other lien (whether arising by contract or by operation of law), other than: (i) landlord's, mechanic's,

materialmen's, and similar liens; (ii) liens arising under worker's compensation, unemployment insurance, social security, retirement, and similar legislation; (iii) liens for non-delinquent taxes and non-delinquent statutory liens arising other than by reason of default; and (iv) liens on goods in transit incurred pursuant to documentary letters of credit, in each case arising in the Ordinary Course of Business (as defined below) and not material to the Company; and "Ordinary Course of Business" means the ordinary course of the Company's business, consistent with past custom and practice (including with respect to frequency and amount).

2.5 Financial Statements. The Company has provided to the Buyer (a) the audited balance sheets and statements of income, changes in stockholders' equity and cash flows of the Company as of and for each of the three fiscal years in the period ended December 31, 2001; and (b) the unaudited balance sheet (the "Most Recent Balance Sheet") and statements of income, changes in stockholders' equity and cash flows as of and for the one month ended as of January 31, 2002 (the "Most Recent Balance Sheet Date"). Such financial statements (collectively, the "Financial Statements") have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods covered thereby (except as may be set forth in the notes thereto), fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of the respective dates thereof and for the respective periods referred to therein and are consistent with the books and records of the Company; provided, however, that the Financial Statements referred to in clause (b) above do not include footnotes and are subject to normal recurring adjustments. The audits of the Company have been conducted in all material respects in accordance with generally accepted auditing standards. The Financial Statements have been prepared from the books and records of the Company and the books and records of the Company have been, and are being, maintained in all material respects in accordance with applicable legal and accounting requirements.

2.6 Absence of Certain Changes. Except as contemplated by this Agreement, since January 1, 2002, there has not occurred:

(a) any damage, destruction or loss with respect to any material property or asset of the Company;

(b) any change by the Company in its accounting methods, principles or practices, other than changes required by applicable law or GAAP or regulatory accounting as concurred in by the Company's independent accounts;

(c) any revaluation by the Company of any asset, including, without limitation, any writing down of the value of inventory or writing off of notes or accounts receivable, other than in the Ordinary Course of Business;

(d) any entry by the Company into any contract or commitment of more than \$25,000, excluding contracts or commitments with respect to the sale of goods in the Ordinary Course of Business that contain any Company Obligations (as defined below) no less favorable to the Company than Standard Terms (as defined below);

(e) any declaration, setting aside or payment of any dividend or distribution in respect of any equity interest of the Company or any redemption, purchase or other acquisition of any of its securities;

(f) any increase in or establishment of any insurance, severance, retention, deferred compensation, pension, retirement, profit sharing, stock option (including, without limitation, the granting of stock options, stock appreciation rights, performance awards, or restricted stock awards), stock purchase or other employee benefit plan, or the taking of any other material action not required under any employment agreements in effect as of the Most Recent Balance Sheet Date previously provided to Buyer or in the Ordinary Course of Business with respect to the compensation or employment of directors, officers or employees of the Company;

(g) any strike, work stoppage, slowdown or other labor disturbance;

(h) any material election made by the Company for federal or state income tax purposes;

(i) any material liability or obligation of any nature (whether accrued, absolute, contingent or otherwise and whether due or to become due), including without limiting the generality of the foregoing, liabilities as guarantor under any guarantees or liabilities for taxes, other than in the Ordinary Course of Business;

(j) any forgiveness or cancellation of any material indebtedness or material contractual obligation;

(k) any mortgage, pledge, lien or lease of any assets, tangible or intangible, of the Company with a value in excess of \$25,000 in the aggregate;

(l) any acquisition or disposition of any assets or properties (not including inventory acquired or disposed of in the Ordinary Course of Business) having a value in excess of \$25,000, or any contract for any such acquisition or disposition entered into;

(m) any lease of real or personal property entered into, other than in the Ordinary Course of Business; or

(n) any other event or development which, individually or in the aggregate, has had, or could reasonably be expected to have in the future, a Company Material Adverse Effect.

For purposes of this Agreement, the term "Company Material Adverse Effect" means, when used in connection with the Company, any change, event, circumstance, development or effect that is or is reasonably likely to have a material adverse effect on (i) the business, assets, liabilities, properties, prospects, condition (financial or otherwise), or results of operations of the Company (excluding economic factors affecting the national economy or generally affecting the specific industry in which the Company competes), (ii) the ability of the Company to consummate the transactions contemplated by this Agreement or (iii) the ability of the Buyer to operate the business of the Company as currently being conducted immediately after the Closing. For the

avoidance of doubt, the parties agree that the terms "material," "materially" or "materiality" as used in this Agreement with an initial lower case "m" shall have their respective customary and ordinary meanings, without regard to the meaning ascribed to Company Material Adverse Effect or Buyer Material Adverse Effect (as defined in Section 3.1 hereof), as the case may be.

2.7 Undisclosed Liabilities. The Company does not have any liability (whether known or unknown, whether absolute or contingent, whether liquidated or unliquidated and whether due or to become due), except for (a) liabilities shown on the Most Recent Balance Sheet, (b) liabilities which have arisen since the Most Recent Balance Sheet Date in the Ordinary Course of Business and (c) contractual liabilities incurred in the Ordinary Course of Business which are not required by GAAP to be reflected on a balance sheet. Except as disclosed on Section 2.7 of the Company Disclosure Schedule, the Company does not and will not have any obligations for warranty repair or replacement, or otherwise in connection with the sale of materials, products, services or supplies.

2.8 Tax Matters.

(a) For purposes of this Agreement, the following terms shall have the following meanings:

(i) "Taxes" means all taxes, charges, fees, levies or other similar assessments or liabilities, including without limitation income, gross receipts, ad valorem, premium, value-added, excise, real property, personal property, sales, use, transfer, withholding, employment, unemployment, insurance, social security, business license, business organization, environmental, workers compensation, payroll, profits, license, lease, service, service use, severance, stamp, occupation, windfall profits, customs, duties, franchise and other taxes imposed by the United States of America or any state, local or foreign government, or any agency thereof, or other political subdivision of the United States or any such government, and any interest, fines, penalties, assessments or additions to tax resulting from, attributable to or incurred in connection with any tax or any contest or dispute thereof.

(ii) "Tax Returns" means all reports, returns, declarations, statements or other information required to be supplied to a taxing authority in connection with Taxes.

(iii) "Code" means the Internal Revenue Code of 1986, as amended.

(b) The Company has filed on a timely basis all Tax Returns that it was required to file prior to the date hereof (except for Tax Returns for which the Company has presently effective extensions), and all such Tax Returns were complete and accurate in all material respects. The Company is not and has never been a member of a group of corporations with which it has filed (or been required to file) consolidated, combined or unitary Tax Returns. The Company has paid on a timely basis all Taxes that were due and payable, except for those the Company has contested in good faith and for which the Company has established a proper reserve in the Most Recent Balance Sheet. The unpaid Taxes of the Company for tax periods

through the Most Recent Balance Sheet Date do not exceed the accruals and reserves for Taxes (excluding accruals and reserves for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the Most Recent Balance Sheet. The Company has no actual or potential liability for any Tax obligation of any taxpayer (including without limitation any affiliated group of corporations or other entities that included the Company during a prior period) other than the Company. All Taxes that the Company is or was required by law to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper Governmental Entity, except for those the Company has contested in good faith and for which the Company has established a proper reserve in the Most Recent Balance Sheet. The Company has complied with all information reporting and backup withholding requirements including maintenance of the required records with respect thereto, in connection with amounts paid to any employee, independent contractor, creditor, or other third party.

(c) The Company has delivered to the Buyer complete and accurate copies of all federal income Tax Returns, examination reports and statements of deficiencies assessed against or agreed to by the Company since January 1, 1998. Except as set forth in Section 2.8(c) of the Company Disclosure Schedule, the federal income Tax Returns of the Company are closed by the applicable statute of limitations for all taxable years. The Company has delivered or made available to the Buyer complete and accurate copies of all other Tax Returns of the Company together with all related examination reports and statements of deficiency for all periods from and after January 1, 1998. No examination or audit of any Tax Return of the Company by any Governmental Entity is currently in progress or, to the knowledge of the Company, threatened or contemplated. The Company has never been informed by any jurisdiction that the jurisdiction believes that the Company was required to file any Tax Return that was not filed. The Company has never waived any statute of limitations with respect to Taxes or agreed to an extension of time with respect to a Tax assessment or deficiency.

(d) The Company: (i) is not a "consenting corporation" within the meaning of Section 341(f) of the Code, and none of the assets of the Company are subject to an election under Section 341(f) of the Code; (ii) has never been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code; (iii) has no actual or potential liability for any Taxes of any person (other than the Company), or as a transferee or successor, by contract, or otherwise.

(e) None of the assets of the Company: (i) is property that is required to be treated as being owned by any other person pursuant to the provisions of former Section 168(f)(8) of the Code; (ii) is "tax-exempt use property" within the meaning of Section 168(h) of the Code; or (iii) directly or indirectly secures any debt the interest on which is tax exempt under Section 103(a) of the Code.

(f) The Company has not undergone a change in its method of accounting resulting in an adjustment to its taxable income pursuant to Section 481 of the Code.

(g) At all times since its inception, for federal income tax purposes, the Company has validly been treated as an "S corporation" within the meaning of Section 1361(a) of the Code and has validly been treated in a similar manner for purposes of the income tax laws

of all states in which it has been subject to taxation. The Company at no time has had any "net unrealized built-in gain" within the meaning of Section 1374(d) of the Code that would give rise to taxation pursuant to Section 1374 of the Code (or comparable provisions of state law) if all of the assets of the Company were disposed of as of the end of the day immediately preceding the Closing Date at their respective fair market values.

(h) To the Company's knowledge, there is no basis for the assertion of any claim relating or attributable to Taxes, which, if adversely determined, would result in any Security Interest on the assets of the Company that could reasonably be expected to have a Company Material Adverse Effect.

(i) The Company has not participated in or cooperated with, nor will it, prior to the Closing Date, participate in or cooperate with, an international boycott within the meaning of Section 999 of the Code.

(j) The Company reports its income taxes on the accrual method of accounting.

2.9 Assets. The Company owns or leases all tangible assets necessary for the conduct of its businesses as presently conducted. Each such tangible asset is free from material defects, has been maintained in accordance with normal industry practice, is in good operating condition and repair (subject to normal wear and tear) and is suitable for the purposes for which it presently is used. The Company is not, and the Buyer will not be, restricted from carrying out its business as currently conducted or any part thereof by any agreement, instrument, indenture or court of arbitrational decree to which the Company is a party or to which the Company or its assets are subject. The Company has good and marketable title to all of the assets it purports to own and no such asset of the Company (tangible or intangible) is subject to any Security Interest.

2.10 Owned Real Property. The Company owns no real property.

2.11 Real Property Leases. Section 2.11 of the Company Disclosure Schedule lists all real property leased or subleased to or by the Company and lists the term of such lease, any extension and expansion options, and the rent payable thereunder. The Company has delivered to the Buyer complete and accurate copies of the leases and subleases listed in Section 2.11 of the Company Disclosure Schedule. With respect to each lease and sublease listed in Section 2.11 of the Company Disclosure Schedule:

(a) the lease or sublease is legal, valid, binding, enforceable and in full force and effect;

(b) the lease or sublease will continue to be legal, valid, binding, enforceable and in full force and effect immediately following the Closing in accordance with the terms thereof as in effect immediately prior to the Closing;

(c) neither the Company nor, to the knowledge of the Company, any other party, is in breach or violation of, or default under, any such lease or sublease, and no event has occurred, is pending or, to the knowledge of the Company, is threatened, which, after the giving

of notice, with lapse of time, or otherwise, would constitute a breach or default by the Company or, to the knowledge of the Company, any other party under such lease or sublease;

(d) the Company has not assigned, transferred, conveyed, mortgaged, deeded in trust or encumbered any interest in the leasehold or subleasehold; and

(e) the Company is not aware of any Security Interest, easement, covenant or other restriction applicable to the real property that materially impairs the current uses or the occupancy by the Company of the property subject thereto.

2.12 Intellectual Property.

(a) Other than with respect to software programs that are commercially available on a general basis, the Company exclusively owns, or licenses on an exclusive basis or otherwise possesses legally enforceable rights to use on an exclusive basis, without any obligation to make any fixed or contingent payments, including any royalty payments, all Intellectual Property that is material to the conduct of the business of the Company as currently conducted, including without limitation rights to make, exclude others from using, reproduce, modify, adapt, create derivative works of, translate, distribute (directly or indirectly), transmit, display, perform, license, rent, lease and, with respect to Intellectual Property owned by the Company, assign and sell such Intellectual Property (the "Company Intellectual Property"). For purposes of this Agreement, the term "Intellectual Property" means (i) patents, trademarks, service marks, trade names, domain names, copyrights, designs and trade secrets, (ii) brand names and logos, (iii) artwork, photographs, editorial copy and materials, formats and designs, (iv) customer, partner, prospect and marketing lists, market research data, sales data and traffic and user data, (v) any applications for and registrations of such patents, trademarks, service marks, trade names, domain names, copyrights and designs, (vi) processes, formulae, methods, schematics, technology, know-how, computer software programs and applications and (vii) other tangible or intangible proprietary or confidential information and material.

(b) Section 2.12(b)(i) of the Company Disclosure Schedule sets forth a complete and accurate list of the Company Intellectual Property (other than unregistered copyrights, trade secrets and confidential information and Owned Software (as defined below) set forth on Section 2.13(a) of the Company Disclosure Schedule) owned by the Company and material to the conduct of its business as presently conducted, and Section 2.12(b)(ii) sets forth a complete and accurate list of the Company Intellectual Property licensed by the Company from a third party (other than Licensed Software (as defined below) set forth on Section 2.13(c) of the Company Disclosure Schedule) and material to the conduct of its business as presently conducted.

(c) All material patents and registrations and applications for registered trademarks, service marks and copyrights which are held by the Company are valid and subsisting. To the knowledge of the Company, no other person or entity is infringing, violating or misappropriating, in any material respect, any of the Company Intellectual Property.

(d) None of the (i) Company Intellectual Property or (ii) business or activities previously or currently conducted by the Company infringes, violates or constitutes a

misappropriation of any Intellectual Property of any third party. The Company has not received any complaint, claim or notice alleging any such infringement, violation or misappropriation.

(e) The Company has taken all commercially reasonable measures and precautions to protect and maintain the confidentiality, secrecy and value of all Company Intellectual Property. Without limiting the generality of the foregoing, at the Closing all current programmers, developers and members of management of the Company who are or were involved in, or who have contributed to, the creation or development of any Company Intellectual Property will have executed and delivered to the Company an agreement (containing no exceptions to or exclusions from the scope of its coverage with respect to the assignment of Intellectual Property other than inventions conceived of or reduced to practice prior to such person's employment with the Company) that is similar in scope to the form of the Company's Proprietary Information and Inventions Agreement attached hereto as Exhibit F-1. To the knowledge of the Company, no current or former employee, officer, director, shareholder, consultant or independent contractor has any right, claim or interest in or with respect to any Company Intellectual Property. All of the Company's Proprietary Information and Inventions Agreements to be signed by current programmers, developers and members of management of the Company shall remain in full force and effect unless terminated or expired pursuant to the express terms thereof.

2.13 Company Software.

(a) Set forth on Section 2.13(a) of the Company Disclosure Schedule is a complete and true list of all material software programs, systems and applications (A) designed or developed or under development by employees of the Company or by consultants on the Company's behalf including all documentation ("Owned Software") or (B) licensed by the Company from any third party or constituting "off the shelf" software ("Licensed Software"), in each case that is used or manufactured by the Company in the operation of its business as currently conducted (collectively, the "Software"). The execution and delivery of this Agreement and consummation of the Merger will not result in the breach of, or create on behalf of any third party the right to terminate or modify, any material license, sublicense or other agreement relating to any Company Intellectual Property or any Software.

(b) All of the Owned Software are original works of authorship and are protected by the copyright laws of the United States. The Company owns all right, title and interest in and to the Owned Software and all copyrights thereto, free and clear of all liens, claims, encumbrances, charges, pledges, restrictions or rights of third parties of any kind whatsoever and has not sold, assigned, licensed, distributed or in any other way disposed of or subjected the Owned Software to any lien, claim, encumbrance, charge, pledge, or restriction. None of the Owned Software incorporates, is based on or is a derivative work of any third party code that is subject to the terms of a public source license or otherwise imposes conditions on the terms and conditions under which the Owned Software may be used or distributed. No claim has been asserted against the Company to the effect that the use of any Owned Software by the Company infringes the rights of any person.

(c) The Licensed Software is validly held and used by the Company and may be used by the Company pursuant to the applicable license agreement with respect thereto as set

forth on Schedule 2.13(c) of the Company Disclosure Schedule without the consent of, notice to, or payment of any royalty or other fee to any third party and is fully and freely usable by the Surviving Corporation without the consent of, notice to or payment of any royalty to any third party, All of the Company's computer hardware has validly licensed software installed therein and the Company's use thereof does not conflict with or violate any such license. No claim has been asserted against the Company, and the Company has no knowledge of any basis for an assertion against the Company, to the effect that the use of any Licensed Software by the Company infringes the rights of any third party.

(d) To the knowledge of the Company, the Owned Software is free from any significant software defect, is free from any programming, documentation error or virus (collectively, "Bugs") not consistent with commercially reasonable industry standards acceptable for such Bugs, operates and runs in a reasonable and efficient business manner, conforms in all material respects to all specifications thereof, and, with respect to the Owned Software, the applications can be reasonably compiled from their associated source code.

(e) The Company has made available to the Buyer all documentation in its possession relating to the use, maintenance and operation of the Software, all of which is true and accurate in all material respects.

2.14 Inventory. All inventory of the Company, whether or not reflected on the Most Recent Balance Sheet, consists of a quality and quantity usable and saleable in the Ordinary Course of Business, except for obsolete items and items of below-standard quality, all of which have been written-off or written-down to net realizable value on the Most Recent Balance Sheet. All inventories not written-off have been priced at the lower of cost or market on a first-in, first-out basis. The quantities of each type of inventory, whether raw materials, work-in-process or finished goods, are not excessive in the present circumstances of the Company.

2.15 Contracts.

(a) Section 2.15 of the Company Disclosure Schedule lists the following agreements (written or oral) to which the Company is a party as of the date of this Agreement:

(i) any agreement (or group of related agreements) for the lease of personal property from or to third parties providing for lease payments in excess of \$25,000 per annum or having a remaining term longer than 12 months;

(ii) any agreement (or group of related agreements) for the purchase or sale of products or for the furnishing or receipt of services (A) which calls for performance over a period of more than one year, (B) which involves more than the sum of \$25,000 (excluding agreements for the sale of goods in the Ordinary Course of Business that contain any Company Obligations (as defined below) no less favorable to the Company than the Standard Terms (as defined below)), or (C) in which the Company has granted manufacturing rights, "most favored nation" pricing provisions or marketing or distribution rights relating to any products or territory or has agreed to purchase a minimum quantity of goods or

services or has agreed to purchase goods or services exclusively from a certain party;

(iii) any agreement establishing a partnership or joint venture;

(iv) any agreement (or group of related agreements) under which it has created, incurred, assumed or guaranteed (or may create, incur, assume or guarantee) indebtedness (including capitalized lease obligations) involving more than \$25,000 or under which it has imposed (or may impose) a Security Interest on any of its assets, tangible or intangible;

(v) any agreement concerning confidentiality or noncompetition;

(vi) any agreement for personal services or employment with any of the Company's employees not terminable by the Company before or after the Merger upon not more than 10 days' notice without penalty or any other liability;

(vii) any bonus, deferred compensation, pension, severance, profit-sharing, stock option, employee stock purchase or retirement plan, contract or arrangement or other employee benefit plan or other arrangement covering the Company's employees not terminable by the Company before or after the Merger upon not more than 10 days' notice without penalty or any other liability;

(viii) any agreement involving any current or former officer, director or stockholder of the Company or any affiliate (an "Affiliate"), as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, thereof;

(ix) any agreement under which the consequences of a default or termination would reasonably be expected to have a Company Material Adverse Effect;

(x) any agreement (A) which contains any provisions requiring the Company to indemnify any other party thereto (excluding indemnities contained in agreements for the purchase, sale or license of products entered into in the Ordinary Course of Business on terms no less favorable to the Company than the Standard Terms (as defined below)) or (B) relating to the extension of credit by the Company or guaranteeing by the Company of any obligation of any third party;

(xi) any contract or agreement that provides any discount other than pursuant to the Company's standard discount terms;

(xii) any contract providing for the payment of a commission or other fee calculated as or by reference to the volume of web traffic or a percentage of the profits or revenues of the Company or of any business segment of the Company;

(xiii) any contract or agreement not described above that is material to the business, operations, assets, financial condition, results of operations, properties or prospects of the Company, including without limitation, agreements relating to web site development and operations; marketing, promotion, affiliate and advertising, including search engine referrals and Internet private labeling; fulfillment operations; and telephone, credit card and freight carrier services; and

(xiv) any other agreement (or group of related agreements) either involving more than \$25,000 or not entered into in the Ordinary Course of Business.

(b) The Company has delivered to the Buyer a complete and accurate copy of each written agreement listed in Section 2.12 or Section 2.15 of the Company Disclosure Schedule and such Sections of the Company Disclosure Schedule contains an accurate summary of each oral agreement so listed. With respect to each agreement so listed: (i) the agreement is legal, valid, binding and enforceable and in full force and effect; (ii) the agreement will continue to be legal, valid, binding and enforceable and in full force and effect immediately following the Closing in accordance with the terms thereof as in effect immediately prior to the Closing; and (iii) neither the Company nor, to the knowledge of the Company, any other party, is in breach or violation of, or default under, any such agreement, and no event has occurred, is pending or, to the knowledge of the Company, is threatened, which, after the giving of notice, with lapse of time, or otherwise, would constitute a breach or default by the Company or, to the knowledge of the Company, any other party under such agreement. No notice has been received by the Company with respect to the possible termination or modification of any material contract, and the Company has no reason to believe that any business or financial relationship with any party to a material contract is likely to be adversely affected by consummation of the Merger.

2.16 Accounts Receivable; Accounts Payable.

(a) Set forth on Section 2.16(a) of the Company Disclosure Schedule is a true, correct and complete list, including aging information, of all of the Company's accounts receivable as of the Most Recent Balance Sheet Date. All accounts receivable and vendor accounts receivable of the Company reflected on the Most Recent Balance Sheet are valid receivables subject to no setoffs or counterclaims and are current and collectible (within 90 days after the date on which it first became due and payable), net of the applicable reserve for bad debts on the Most Recent Balance Sheet. All accounts receivable and vendor accounts receivable reflected in the financial or accounting records of the Company that have arisen since the Most Recent Balance Sheet Date are valid receivables subject to no setoffs or counterclaims and are collectible (within 90 days after the date on which it first became due and payable), net of a reserve for bad debts in an amount proportionate to the reserve shown on the Most Recent Balance Sheet.

(b) Set forth on Section 2.16(b) of the Company Disclosure Schedule is a true, correct and complete list, including aging information, of all of the Company's accounts payable as of the Most Recent Balance Sheet Date.

2.17 Powers of Attorney. There are no outstanding powers of attorney executed on behalf of the Company.

2.18 Insurance. Section 2.18 of the Company Disclosure Schedule lists each insurance policy (including fire, theft, casualty, general liability, workers compensation, business interruption, environmental, product liability and automobile insurance policies and bond and surety arrangements) to which the Company is a party. Such insurance policies are of the type and in amounts customarily carried by organizations conducting businesses or owning assets similar to those of the Company. There is no material claim pending under any such policy as to which coverage has been questioned, denied or disputed by the underwriter of such policy. All premiums due and payable under all such policies have been paid, the Company has no reason to believe that it will be liable for retroactive premiums or similar payments, and the Company is otherwise in compliance in all material respects with the terms of such policies. The Company has no knowledge of any threatened termination of, or material premium increase with respect to, any such policy. Each such policy will continue to be enforceable and in full force and effect immediately following the Closing in accordance with the terms thereof as in effect immediately prior to the Closing.

2.19 Litigation. There is no action, suit, proceeding, claim, arbitration or investigation before any Governmental Entity or before any arbitrator (a "Legal Proceeding") which is pending or has been threatened in writing against the Company which (a) seeks either damages in excess of \$25,000 or equitable relief or (b) in any manner challenges or seeks to prevent, enjoin, alter or delay the transactions contemplated by this Agreement. Neither the Company nor any property or asset of the Company is subject to any order, writ, judgment, injunction, decree, determination or award which restricts the Company's ability to conduct business in any area in which it presently does business or which has or could reasonably be expected to have, either individually or in the aggregate, a Company Material Adverse Effect.

2.20 Warranties; Customer Complaints.

(a) No product or service manufactured, sold, leased, licensed or delivered by the Company is subject to any guaranty, warranty, right of return, right of credit or other indemnity of the Company (collectively, the "Company Obligations") other than (i) the applicable standard terms and conditions of sale or lease of the Company, which are set forth in Section 2.20 of the Company Disclosure Schedule and (ii) manufacturers' warranties for which the Company has no liability (collectively, the "Standard Terms").

(b) Neither the Company nor any officer or director of the Company is or has been a defendant in any product liability litigation relating to any product sold by the Company, and no such litigation is pending or, to the knowledge of the Company, has been threatened.

(c) Set forth on Section 2.20 of the Company Disclosure Schedule is a description of all customer complaints received by the Company over the past year, other than one-time, non-systemic complaints received in the Ordinary Course of Business.

2.21 Employees.

(a) Section 2.21 of the Company Disclosure Schedule lists each employee or consultant of the Company as of the date hereof, as well as each employee's and consultant's date of hire, title, department, leave status, current salary, rate of compensation, current bonus eligibility, date of last review and salary/bonus increase, accrued vacation, retention or severance eligibility and accrued sick time and for 2001 each employee's or consultant's salary, bonus, commissions and total compensation paid.

(b) At the Closing, each current programmer, developer and member of management of the Company will have entered into a confidentiality agreement with Company substantially in the form attached hereto as Exhibit F. Section 2.21 of the Company Disclosure Schedule contains a list of all employees of the Company who are a party to a non-competition agreement with the Company; copies of such agreements have previously been delivered to the Buyer. To the knowledge of the Company, no key employee or group of employees has any plans to terminate employment with the Company.

(c) The Company is not a party to or bound by any collective bargaining agreement, nor has it experienced any strikes, grievances, claims of unfair labor practices or other collective bargaining disputes. The Company has no knowledge of any organizational effort made or threatened, either currently or within the past two years, by or on behalf of any labor union with respect to employees of the Company.

(d) Each of the Company and the ERISA Affiliates (as defined below) is in material compliance with all laws, rules and regulations regarding the regulation of labor, hiring, employment standards, workplace human rights, pay equity, employment equity, health and safety. No independent contractor, consultant, freelancer or other person working or providing work or services for or with respect to the Company or any ERISA Affiliate is, or is likely to be held to be, an employee of the Company or any ERISA Affiliate.

2.22 Employee Benefits.

(a) For purposes of this Agreement, the following terms shall have the following meanings:

(i) "Employee Benefit Plan" means any "employee pension benefit plan" (as defined in Section 3(2) of ERISA), any "employee welfare benefit plan" (as defined in Section 3(1) of ERISA), and any other written or oral plan, agreement or arrangement involving direct or indirect compensation, including without limitation insurance coverage, severance benefits, disability benefits, deferred compensation, bonuses, stock options, stock purchase, phantom stock, stock appreciation or other forms of incentive compensation or post-retirement compensation.

(ii) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

(iii) "ERISA Affiliate" means any entity which is, or at any applicable time was, a member of (1) a controlled group of corporations (as defined in Section 414(b) of the Code), (2) a group of trades or businesses under common control (as defined in Section 414(c) of the Code), or (3) an affiliated service group (as defined under Section 414(m) of the Code or the regulations under Section 414(o) of the Code), any of which includes or included the Company.

(b) Section 2.22(b) of the Company Disclosure Schedule contains a complete and accurate list of all Employee Benefit Plans maintained, or contributed to, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any material liability. Complete and accurate copies of (i) all Employee Benefit Plans which have been reduced to writing, (ii) written summaries of all unwritten Employee Benefit Plans, (iii) all related trust agreements, insurance contracts and summary plan descriptions, and (iv) all annual reports filed on IRS Form 5500, 5500C or 5500R and (for all funded plans) all plan financial statements for the last five plan years for each Employee Benefit Plan, have been delivered to the Buyer. Each Employee Benefit Plan has been administered in all material respects in accordance with its terms and each of the Company and the ERISA Affiliates has in all material respects met its obligations with respect to such Employee Benefit Plan and has made all required contributions thereto. The Company, each ERISA Affiliate and each Employee Benefit Plan are in compliance in all material respects with the currently applicable provisions of ERISA and the Code and the regulations thereunder (including without limitation Section 4980 B of the Code, Subtitle K, Chapter 100 of the Code and Sections 601 through 608 and Section 701 et seq. of ERISA). All filings and reports as to each Employee Benefit Plan required to have been submitted to the Internal Revenue Service or to the United States Department of Labor have been duly submitted.

(c) There are no Legal Proceedings (except claims for benefits payable in the normal operation of the Employee Benefit Plans and proceedings with respect to qualified domestic relations orders) against or involving any Employee Benefit Plan or asserting any rights or claims to benefits under any Employee Benefit Plan that could give rise to any material liability.

(d) All the Employee Benefit Plans that are intended to be qualified under Section 401(a) of the Code have received determination letters from the Internal Revenue Service to the effect that such Employee Benefit Plans are qualified and the plans and the trusts related thereto are exempt from federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, no such determination letter has been revoked and, to the knowledge of the Company, revocation has not been threatened, and no such Employee Benefit Plan has been amended since the date of its most recent determination letter or application therefor in any respect, and no act or omission has occurred, that would adversely affect its qualification or materially increase its cost. Each Employee Benefit Plan which is required to satisfy Section 401(k)(3) or Section 401(m)(2) of the Code has been tested for compliance with, and satisfies the requirements of, Section 401(k)(3) and Section 401(m)(2) of the Code for each plan year ending prior to the Closing Date.

(e) Neither the Company nor any ERISA Affiliate has ever maintained an Employee Benefit Plan subject to Section 412 of the Code or Title IV of ERISA.

(f) At no time has the Company or any ERISA Affiliate been obligated to contribute to any "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA).

(g) There are no unfunded obligations under any Employee Benefit Plan providing benefits after termination of employment to any employee of the Company (or to any beneficiary of any such employee), including but not limited to retiree health coverage and deferred compensation, but excluding continuation of health coverage required to be continued under Section 4980B of the Code or other applicable law and insurance conversion privileges under state law. The assets of each Employee Benefit Plan which is funded are reported at their fair market value on the books and records of such Employee Benefit Plan. No Employee Plan includes in its assets securities issued by the Company or any ERISA Affiliate.

(h) No act or omission has occurred and no condition exists with respect to any Employee Benefit Plan maintained by the Company or any ERISA Affiliate that would subject the Company or any ERISA Affiliate to (i) any material fine, penalty, tax or liability of any kind imposed under ERISA or the Code or (ii) any contractual indemnification or contribution obligation protecting any fiduciary, insurer or service provider with respect to any Employee Benefit Plan.

(i) No Employee Benefit Plan is funded by, associated with or related to a "voluntary employee's beneficiary association" within the meaning of Section 501(c)(9) of the Code.

(j) Each Employee Benefit Plan is amendable and terminable unilaterally by the Company at any time without liability (including, without limitation, surrender charges, sales charges or similar expenses) to the Company as a result thereof and no Employee Benefit Plan, plan documentation or agreement, summary plan description or other written communication distributed generally to employees by its terms prohibits the Company from amending or terminating any such Employee Benefit Plan.

(k) Section 2.22(k) of the Company Disclosure Schedule discloses each: (i) agreement with any stockholder, director, executive officer or other key employee of the Company (A) the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving the Company of the nature of any of the transactions contemplated by this Agreement, (B) providing any term of employment or compensation guarantee or (C) providing severance benefits or other benefits after the termination of employment of such director, executive officer or key employee; (ii) agreement, plan or arrangement under which any person may receive payments from the Company that may be subject to the tax imposed by Section 4999 of the Code or included in the determination of such person's "parachute payment" under Section 280G of the Code (without regard to Section 280G(b)(4) thereof); and (iii) agreement or plan binding the Company, including without limitation any stock option plan, stock appreciation right plan, restricted stock plan, stock purchase plan, severance benefit plan or Employee Benefit Plan, any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement.

(1) Section 2.22(1) of the Company Disclosure Schedule sets forth the policy of the Company with respect to accrued vacation, accrued sick time and earned time-off and the amount of such liabilities as of the Most Recent Balance Sheet Date.

2.23 Environmental Matters.

(a) The Company has complied with all applicable Environmental Laws (as defined below). There is no pending or, to the knowledge of the Company, threatened civil or criminal litigation, written notice of violation, formal administrative proceeding, or investigation, inquiry or information request by any Governmental Entity, relating to any Environmental Law involving the Company. For purposes of this Agreement, "Environmental Law" means any federal, state or local law, statute, rule or regulation or the common law relating to the environment or occupational health and safety, including without limitation any statute, regulation, administrative decision or order pertaining to (i) treatment, storage, disposal, generation and transportation of industrial, toxic or hazardous materials or substances or solid or hazardous waste; (ii) air, water and noise pollution; (iii) groundwater and soil contamination; (iv) the release or threatened release into the environment of industrial, toxic or hazardous materials or substances, or solid or hazardous waste, including without limitation emissions, discharges, injections, spills, escapes or dumping of pollutants, contaminants or chemicals; (v) the protection of wild life, marine life and wetlands, including without limitation all endangered and threatened species; (vi) storage tanks, vessels, containers, abandoned or discarded barrels, and other closed receptacles; (vii) health and safety of employees and other persons; and (viii) manufacturing, processing, using, distributing, treating, storing, disposing, transporting or handling of materials regulated under any law as pollutants, contaminants, toxic or hazardous materials or substances or oil or petroleum products or solid or hazardous waste. As used above, the terms "release" and "environment" shall have the meaning set forth in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA").

(b) There have been no releases of any Materials of Environmental Concern (as defined below) into the environment at any parcel of real property or any facility formerly or currently owned, operated or controlled by the Company. With respect to any such releases of Materials of Environmental Concern by the Company, the Company has given all required notices to Governmental Entities (copies of which have been provided to the Buyer). The Company is not aware of any releases of Materials of Environmental Concern at parcels of real property or facilities other than those owned, operated or controlled by the Company that could reasonably be expected to have an impact on the real property or facilities owned, operated or controlled by the Company. For purposes of this Agreement, "Materials of Environmental Concern" means any chemicals, pollutants or contaminants, hazardous substances (as such term is defined under CERCLA), solid wastes and hazardous wastes (as such terms are defined under the Resource Conservation and Recovery Act), toxic materials, oil or petroleum and petroleum products or any other material subject to regulation under any Environmental Law.

(c) Set forth in Section 2.23(c) of the Company Disclosure Schedule is a list of all documents (whether in hard copy or electronic form) that contain any environmental reports, investigations and audits relating to premises currently or previously owned or leased by the Company (whether conducted by or on behalf of the Company or a third party, and whether

done at the initiative of the Company or directed by a Governmental Entity or other third party) which the Company has possession of or access to. A complete and accurate copy of each such document has been provided to the Buyer.

(d) The Company is not aware of any material environmental liability of any solid or hazardous waste transporter or treatment, storage or disposal facility that has been used by the Company.

2.24 Legal Compliance. Except for matters relating to environmental matters (which are subject to Section 2.23 above), the Company, and the conduct and operations of its business, are in compliance with each applicable law (including rules and regulations thereunder) of any federal, state, local or foreign government, or any Governmental Entity, and the Company has not received notice of any material violations of any of the above.

2.25 Customers and Suppliers.

(a) Section 2.25(a) of the Company Disclosure Schedule sets forth a list of the Company's largest 25 customers during the last full fiscal year and the amount of revenues accounted for by each such customer during each such period. Except as set forth in Section 2.25(a) of the Company Disclosure Schedule, to the Company's knowledge, none of the Company's top 25 customers in the fiscal year ended December 31, 2001 has indicated that it will stop, or materially decrease the rate of, buying products from the Company.

(b) The Company believes that its business relationship with vendors, manufacturers, and resellers ("Business Vendors") with whom it has business dealings are generally satisfactory. Section 2.25(b) of the Company Disclosure Schedule sets forth a list of the twenty-five (25) largest Business Vendors that accounted for approximately ninety-five percent (95%) of the Company's purchases during the last full fiscal year. The Company does not now have a material dispute with any such listed Business Vendor. During the past fiscal year the Company has not received any written notice that indicates dissatisfaction with the Company's performance of its obligations to such listed Business Vendors. No written notice has been received by the Company with respect to the possible termination or modification of any relationship with any such listed Business Vendor, including but not limited to modifications in co-op funds, rebates or marketing funds (other than industry-wide notices not specific to the Company), and the Company has no reason to believe that any business or financial relationship with a Business Vendor is likely to be adversely affected by consummation of the Merger.

2.26 Authorized Representative. Set forth on Section 2.26 of the Company Disclosure Schedule is a complete list and description of the vendors and manufacturers for which the Company is an authorized representative ("Vendor Relationships"). Except as disclosed in Schedule 2.26 of the Company Disclosure Schedule, no written notice has been received with respect to the possible termination or modification of any Vendor Relationship and the Company has no reason to believe that any Vendor Relationship will be adversely affected by consummation of the Merger.

2.27 Prepayments, Prebilled Invoices and Deposits. Section 2.27 of the Company Disclosure Schedule sets forth (a) all prepayments, prebilled invoices and deposits in amounts,

on a per customer basis, greater than \$25,000 that have been received by the Company as of the date of this Agreement from customers for products to be shipped, or services to be performed, after the Closing Date, and (b) with respect to each such prepayment, prebilled invoice or deposit, (i) the party and contract credited, (ii) the date received or invoiced, (iii) the products and/or services to be delivered and (iv) the conditions for the return of such prepayment, prebilled invoice or deposit. All prepayments, prebilled invoices and deposits are properly accrued for on the Most Recent Balance Sheet in accordance with GAAP applied on a consistent basis with the past practice of the Company.

2.28 Government Contracts. The Company has not been suspended or debarred from bidding on contracts or subcontracts with any Governmental Entity ("Government Contracts"); no such suspension or debarment has been initiated or, to the knowledge of the Company, threatened; and the consummation of the transactions contemplated by this Agreement will not result in any such suspension or debarment. The Company has not been audited or, to the knowledge of the Company, investigated, nor is it now being audited or, to the knowledge of the Company, investigated by the U.S. Government Accounting Office, the U.S. Department of Defense or any of its agencies, the Defense Contract Audit Agency, the U.S. Department of Justice, the Inspector General of any U.S. Governmental Entity, any similar agencies or instrumentalities of any state or foreign Governmental Entity, or any prime contractor with a Governmental Entity nor, to the knowledge of the Company, has any such audit or investigation been threatened. To the knowledge of the Company, there is no valid basis for (a) the suspension or debarment of the Company from bidding on any Government Contracts, or (b) any claim pursuant to an audit or investigation by any of the entities named in the foregoing sentence. The Company has no agreements, contracts or commitments which require it to obtain or maintain a security clearance with any Governmental Entity.

2.29 Permits. Section 2.29 of the Company Disclosure Schedule sets forth a list of all material permits, licenses, registrations, certificates, orders or approvals from any Governmental Entity (including without limitation those issued or required under Environmental Laws and those relating to the occupancy or use of owned or leased real property) ("Permits") issued to or held by the Company. Such listed Permits are the only Permits that are required for the Company to conduct its business as presently conducted. Each such Permit is in full force and effect and, to the knowledge of the Company, no suspension or cancellation of such Permit has been threatened in writing and there is no basis for believing that such Permit will not be renewable upon expiration. Each such Permit will continue in full force and effect immediately following the Closing.

2.30 Competing Interests. None of the Company or any director or officer of the Company, or, to the knowledge of the Company, any agent or employee of the Company, or any Affiliate or family member of any of the foregoing (a) owns, directly or indirectly, an interest in any entity that is a competitor, customer or supplier of the Company or that otherwise has material business dealings with the Company (other than ownership through a mutual fund or similar investment vehicle) or (b) is a party to, or otherwise has any direct or indirect interest opposed to the Company under, any material agreement or other business relationship or arrangement material to the Company, provided that the foregoing clause (a) and (b) will not apply to any investment in publicly traded securities constituting less than 3% of the outstanding securities in such class. Neither the Company, nor any director or officer of the Company, nor,

to the knowledge of the Company, any agent or employee of the Company, is a party to any non-competition, non-solicitation, exclusivity or other similar agreement that would in any way restrict or adversely affect the business or activities of the Company or Buyer.

2.31 Interests of Company Insiders. No director, officer or employee of the Company, or any Affiliate or immediate family member (each, a "Company Insider") of any of the foregoing, (a) has any interest in any property, real or personal, tangible or intangible, including Company Intellectual Property used in or pertaining to the business of the Company, except for the normal rights of a shareholder, and except for rights under existing employee benefit plans or (b) is owed any money by the Company, except salary and other benefits payable in the Ordinary Course of Business or as is apparent on the face of an agreement listed in the Section 2.22 of the Company Disclosure Schedule.

2.32 Brokers' Fees. The Company has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement, except under the existing agreement between the Company and Martin Wolf Securities LLC an accurate and complete copy of which has been provided to the Buyer and which, pursuant to Section 4.4, the Company Stockholders shall be obligated to pay.

2.33 No Existing Discussions. As of the date of this Agreement, the Company is not engaged, directly or indirectly, in any discussions or negotiations with any party other than the Buyer with respect to a liquidation, dissolution, sale of all or substantially all of the assets of the Company, merger or consolidation involving the Company.

2.34 Books and Records. The minute books and other similar records of the Company as provided to the Buyer contain complete and accurate records of all material actions taken at any meetings of the Company's stockholders, Board of Directors or any committee thereof and of all written consents executed in lieu of the holding of any such meeting. The books and records of the Company accurately reflect in all material respects the assets, liabilities, business, financial condition and results of operations of the Company and have been maintained in accordance with good business and bookkeeping practices.

2.35 Disclosure. No representation or warranty by the Company contained in this Agreement, and no statement contained in the Company Disclosure Schedule or any certificate delivered or to be delivered by the Company at the Closing pursuant to this Agreement, contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact necessary, in light of the circumstances under which it was or will be made, in order to make the statements herein or therein not misleading.

2.36 Business Plan for 2002. The business plan projections for the year ending December 31, 2002 in the aggregate and as provided by the Company to the Buyer on March 15, 2002 were prepared by the Company in good faith using the best information available to management of the Company and represent company management's good faith estimates of the future performance of the Company for the year ending December 31, 2002.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE BUYER AND THE
TRANSITORY SUBSIDIARY

The Buyer and the Transitory Subsidiary hereby jointly and severally represent and warrant to the Company that the statements contained in this Article III are true and correct as of the date hereof and will be true and correct as of the Closing Date, except as expressly set forth herein or in the disclosure schedule delivered by the Buyer and the Transitory Subsidiary to the Company on or before the date of this Agreement (the "Buyer Disclosure Schedule"). The Buyer Disclosure Schedule shall be arranged in sections and paragraphs corresponding to the numbered and lettered sections and paragraphs contained in this Article III.

3.1 Organization, Standing and Power. Each of the Buyer and the Transitory Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has all requisite corporate power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted, and is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the character of its properties owned, operated or leased or the nature of its activities makes such qualification necessary, except for such failures to be so qualified that would not, individually or in the aggregate, have a Buyer Material Adverse Effect. For purposes of this Agreement, the term "Buyer Material Adverse Effect" means, when used in connection with the Buyer and Transitory Subsidiary, any change, event, circumstance, development or effect that is or is reasonably expected to have a material adverse effect on (i) the business, assets, liabilities, properties, prospects, condition (financial or otherwise), or results of operations of the Buyer or Transitory Subsidiary (excluding economic factors affecting the national economy or generally affecting the specific industry in which the Buyer and Transitory Subsidiary compete), or (ii) the ability of the Buyer or Transitory Subsidiary to consummate the transactions contemplated by this Agreement.

3.2 Authority; No Conflict; Required Filings and Consents.

(a) Each of the Buyer and the Transitory Subsidiary has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement by the Buyer and the Transitory Subsidiary have been duly authorized by all necessary corporate action on the part of each of the Buyer and the Transitory Subsidiary. This Agreement has been duly executed and delivered by each of the Buyer and the Transitory Subsidiary and constitutes the valid and binding obligation of each of the Buyer and the Transitory Subsidiary, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(b) Subject to the filing of the Articles of Merger as required by the FBCA, neither the execution and delivery by the Buyer or the Transitory Subsidiary of this Agreement, nor the consummation by the Buyer or the Transitory Subsidiary of the transactions contemplated hereby, will (a) conflict with or violate any provision of the Certificate of

Incorporation or By-laws of the Buyer or the Articles of Incorporation or By-Laws of the Transitory Subsidiary, (b) require on the part of the Buyer or the Transitory Subsidiary any filing with, or any permit, authorization, consent or approval of a Governmental Entity, (c) conflict with, result in a breach of, constitute (with or without due notice or lapse of time or both) a default under, result in the acceleration of obligations under, create in any party the right to terminate, modify or cancel, or require any notice, consent or waiver under, any material contract or instrument to which the Buyer or the Transitory Subsidiary is a party or by which the Buyer or the Transitory Subsidiary is bound or to which any of their assets is subject, (d) result in the imposition of any Security Interest upon any assets of the Buyer or the Transitory Subsidiary or (e) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Buyer, the Transitory Subsidiary or any of their properties or assets.

3.3 Operations of the Transitory Subsidiary. The Transitory Subsidiary was formed solely for the purpose of engaging in the transactions contemplated by this Agreement, has engaged in no other business activities (other than those incident to its organization and the execution and delivery of this Agreement) and has conducted its operations only as contemplated by this Agreement, and has no liabilities of any kind (actual or otherwise).

3.4 Litigation. There is no Legal Proceeding which is pending or has been threatened in writing against the Buyer or the Transitory Subsidiary which in any manner challenges or seeks to prevent, enjoin, alter or delay the transactions contemplated by this Agreement. Neither the Buyer, the Transitory Subsidiary nor any property or asset of the Buyer or Transitory Subsidiary is subject to any order, writ, judgment, injunction, decree, determination or award which restricts the Buyer's or Transitory Subsidiary's ability to conduct business in any area in which it presently does business.

3.5 Brokers' Fees. Neither the Buyer nor the Transitory Subsidiary has liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

ARTICLE IV COVENANTS

4.1 Closing Efforts. Each of the Parties shall use its best efforts, to the extent commercially reasonable ("Reasonable Best Efforts"), to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated by this Agreement, including without limitation using its Reasonable Best Efforts to ensure that (i) its representations and warranties remain true and correct in all material respects through the Closing Date and (ii) the conditions to the obligations of the other Parties to consummate the Merger are satisfied.

4.2 Operation of the Business. Except as consented to in writing by the Buyer, from and after the date of this Agreement until the earlier of the termination of this Agreement in accordance with its terms or the Effective Time, the Company shall act and carry on its business in the usual, regular and ordinary course in substantially the same manner as previously conducted, pay its debts and Taxes and perform its other obligations when due (subject to good faith disputes over such debts, Taxes or obligations), comply with all applicable laws, rules and

regulations, and use best efforts, consistent with past practices, to maintain and preserve its business organization, assets and properties, keep available the services of its present officers and employees and preserve its advantageous business relationships with customers, strategic partners, suppliers, distributors and others having business dealings with it to the end that its goodwill and ongoing business shall be unimpaired at the Effective Time. Without limiting the generality of the foregoing, from and after the date of this Agreement until the earlier of the termination of this Agreement in accordance with its terms or the Effective Time, the Company shall not, directly or indirectly, do any of the following without the prior written consent of the Buyer except as set forth in Section 4.2 of the Company Disclosure Schedule:

(a) (A) except (i) for the distribution by the Company of cash to the Company Stockholders in amounts equal to (x) the Taxes with respect to any Tax year or portion thereof ending after the date hereof but on or before the Closing Date payable by the Company Stockholders as a result of the Company's status as an S corporation for federal and state Tax purposes (other than any Tax liability arising out of any Section 338(h)(10) Election made pursuant to Section 4.6 of this Agreement (the "S Corporation Stockholder Tax Liability")), as estimated in good faith by the Company and the Buyer within three business days prior to the Closing Date and (y) an amount equal to the excess of the Taxes with respect to the Tax year ended December 31, 2001 payable by the Company Stockholders (other than the S Corporation Stockholder Tax Liability) over the estimated Taxes for the same Tax year paid by the Company Stockholders as a result of the Company's status as an S corporation for federal and state Tax purposes (other than the S Corporation Stockholder Tax Liability), (ii) for the distribution by the Company of up to \$3,000,000 in cash to the Company Stockholders prior to the Effective Time as a distribution of previously taxed but undistributed earnings and profits, or (iii) as set forth in Section 4.2(a) of the Company Disclosure Schedule (which will permit the distribution, by a note, of previously taxed but undistributed earnings and profits, remaining after the \$3,000,000 cash distribution paid pursuant to clauses (A)(i) and (ii) above), declare, set aside or pay any dividends on, or make any other distributions (whether in cash, securities or other property) in respect of, any of its capital stock; (B) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or any of its other securities; or (C) purchase, redeem or otherwise acquire any shares of its capital stock or any other of its securities or any rights, warrants or options to acquire any such shares or other securities;

(b) issue, deliver, sell, grant, pledge or otherwise dispose of or encumber any shares of its capital stock, any other voting securities or any securities convertible into or exchangeable for, or any rights, warrants or options to acquire, any such shares, voting securities or convertible or exchangeable securities (other than the issuance of shares of Company Capital Stock upon the exercise of Company Options or Company Warrants outstanding on the date of this Agreement in accordance with their present terms);

(c) amend its articles of incorporation, by-laws or other comparable charter or organizational documents, except as expressly provided by this Agreement;

(d) acquire (A) by merging or consolidating with, or by purchasing all or a substantial portion of the assets or any stock of, or by any other manner, any business or any corporation, partnership, joint venture, limited liability company, association or other business

organization or division thereof or (B) any assets that are material, in the aggregate, to the Company, except purchases of inventory and components in the Ordinary Course of Business;

(e) whether or not in the Ordinary Course of Business, sell, dispose of or otherwise transfer any assets material to the Company, taken as a whole (including any accounts, leases, contracts or intellectual property, but excluding the sale of products in the Ordinary Course of Business pursuant to agreements containing Company Obligations no less favorable to the Company than the Standard Terms);

(f) enter into an agreement with respect to any merger, consolidation, liquidation or business combination, or any acquisition or disposition of all or substantially all of the assets or securities of the Company;

(g) (A) incur any indebtedness for borrowed money or guarantee any such indebtedness of another person, (B) issue, sell or amend any debt securities or warrants or other rights to acquire any debt securities of the Company or any of its Subsidiaries, guarantee any debt securities of another person, enter into any "keep well" or other agreement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing, (C) make any loans, advances or capital contributions to, or investment in, any other person, or (D) enter into any hedging agreement or other financial agreement or arrangement designed to protect the Company against fluctuations in commodities prices or exchange rates;

(h) make any changes in accounting methods, principles or practices, except insofar as may have been required by a change in GAAP or, except as so required, change any assumption underlying, or method of calculating, any bad debt, contingency or other reserve;

(i) modify, amend or terminate any material contract or agreement to which the Company is party, or knowingly waive, release or assign any material rights or claims (including any write-off or other compromise of any accounts receivable of the Company);

(j) (A) enter into any material contract or agreement relating to the rendering of services or the distribution, sale or marketing by third parties of the products, of, or products licensed by, the Company or (B) license any material intellectual property rights to or from any third party;

(k) except as required to comply with applicable law or agreements, plans or arrangements existing on the date hereof, (A) take any action with respect to, adopt, enter into, terminate or amend any employment, severance or similar agreement or benefit plan for the benefit or welfare of any current or former director, officer, employee or consultant or any collective bargaining agreement, (B) increase in any material respect the compensation or fringe benefits of, or pay any bonus to, any director, officer, employee or consultant, (C) amend or accelerate the payment, right to payment or vesting of any compensation or benefits, including any outstanding options or restricted stock awards, (D) pay any material benefit not provided for as of the date of this Agreement under any benefit plan, (E) grant any awards under any bonus, incentive, performance or other compensation plan or arrangement or benefit plan, including the grant of stock options, stock appreciation rights, stock based or stock related awards,

performance units or restricted stock, or the removal of existing restrictions in any benefit plans or agreements or awards made thereunder, or (F) take any action other than in the Ordinary Course of Business to fund or in any other way secure the payment of compensation or benefits under any employee plan, agreement, contract or arrangement or benefit plan;

(l) make or rescind any Tax election, settle or compromise any Tax liability or amend any Tax return; or

(m) initiate, compromise or settle any material litigation or arbitration proceeding.

4.3 Governmental and Third-Party Notices and Consents.

(a) Each Party shall use its Reasonable Best Efforts to obtain, at its expense, all waivers, permits, consents, approvals or other authorizations from Governmental Entities, and to effect all registrations, filings and notices with or to Governmental Entities, as may be required for such Party to consummate the transactions contemplated by this Agreement and to otherwise comply with all applicable laws and regulations in connection with the consummation of the transactions contemplated by this Agreement.

(b) The Company shall use its Reasonable Best Efforts to obtain, at its expense, all such waivers, consents or approvals from third parties, and to give all such notices to third parties, as are required to be listed in Section 2.4 of the Company Disclosure Schedule.

4.4 Expenses. The Buyer shall bear its own costs and expenses (including legal and broker fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby. The Company Stockholders shall bear the Company's costs and expenses (including legal and broker fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby. Notwithstanding the foregoing, if either the Buyer or the Company shall have updated the Buyer Disclosure Schedule or the Company Disclosure Schedule, respectively, pursuant to Section 4.10 and the Party receiving the update elects to terminate this Agreement pursuant to Section 7.1(e), the Party providing such notice shall reimburse the other Party for all legal fees and expenses incurred by such other Party in connection with this Agreement or the transactions contemplated hereby.

4.5 Transfer Taxes. The Company Stockholders shall timely pay all transfer, documentary, sales, use, stamp, registration and other Taxes and fees arising out of or relating to the transactions contemplated by this Agreement, and the Company Stockholders shall, at their own expense, file all necessary Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other taxes and fees.

4.6 S Corporation Status. The Company shall, up to and including the Closing Date, maintain its status as an S corporation for federal and state income Tax purposes.

4.7 Section 338(h)(10) Election. At the election of the Buyer, the Company and the Company Stockholders will each join with the Buyer in making an election under Code Section 338(h)(10) (and any corresponding election under state, local, and foreign tax law) with respect to the purchase and sale of the stock of the Company hereunder (the "Section 338(h)(10) Election").

Election"). In particular, and not by way of limitation, in order to effect such Section 338(h)(10) Election, on or prior to the Closing Date, the Company Stockholders shall execute and deliver to the Buyer necessary copies of Internal Revenue Service Form 8023 and all other attachments and any other forms or documents required to be filed by the Buyer with the Internal Revenue Service. The Buyer and the Company Stockholders agree to report the transaction for tax purposes in a manner consistent with the making of such elections, if such Form 8023 is filed by the Buyer with the Internal Revenue Service. The obligations of the parties under this Section 4.7 shall survive the Closing. The Company Stockholders will include any income, gain, loss, deduction or other Tax item resulting from the Section 338(h)(10) election on their Tax Returns to the extent required by applicable law. The Company and the Company Stockholders agree that the Merger Consideration and liabilities of the Company (plus other relevant items) will be allocated to the assets of the Company for all purposes (including tax and financial accounting) as shown on the Allocation Schedule attached hereto. The Buyer, the Company and the Company Stockholders will file all Tax Returns (including amended returns and claims for refund) and information reports in a manner consistent with such allocation.

4.8 Director and Officer Indemnification.

(a) The Buyer hereby confirms that the indemnification obligations of the Company to its directors and officers set forth in the Company's Articles of Incorporation and By-Laws and as provided by Florida law, in each case as in effect on the date of this Agreement, will not be extinguished by virtue of the Merger. All such obligations shall be subject to the provisions of Section 6.5(d) hereof.

(b) This Section 4.8 shall be construed as an agreement as to which the directors and officers of the Company are intended to be third party beneficiaries and shall be enforceable by such persons and their heirs and representatives.

4.9 Access to Information; Confidentiality.

(a) Subject to the existing confidentiality agreement dated as of December 3, 2001 (the "Confidentiality Agreement"), between the Company and the Buyer, upon reasonable notice, the Company shall afford to the Buyer and to the officers, employees, accountants, counsel, financial advisors and other representatives of the Buyer, reasonable access during normal business hours during the period prior to the Effective Time to all its respective properties, books, contracts, commitments, personnel and records and, during such period, the Company shall furnish promptly to the Buyer a copy of all information concerning its business, properties and personnel as the Buyer may reasonably request. The Company shall not be required to provide access to or disclose information where such access or disclosure would contravene any applicable law, rule, regulation, order or decree or would, with respect to any pending matter, result in a waiver of the attorney-client privilege or the protection afforded attorney work-product provided that this shall not relieve the Company of any obligations under Article II or Article VI of this Agreement. The Company shall use reasonable efforts to obtain from third parties any consents or waivers of confidentiality restrictions with respect to any such information being provided by it. The Buyer will hold, and will cause its respective officers, employees, accountants, counsel, financial advisors and other affiliates and representatives to hold, any nonpublic information in accordance with the terms of the Confidentiality Agreement.

(b) By the execution of this Agreement, the terms of the Confidentiality Agreement shall be extended and shall remain in full force and effect until the second anniversary of the date of termination of this Agreement pursuant to Section 7.1

4.10 Notification of Certain Matters. The Buyer shall give prompt notice to the Company, and the Company shall give prompt notice to the Buyer, of the occurrence, or failure to occur, of any event, which occurrence or failure to occur would be reasonably likely to cause (a) (i) any representation or warranty of such party contained in this Agreement that is qualified as to materiality to be untrue or inaccurate in any respect or (ii) any other representation or warranty of such party contained in this Agreement to be untrue or inaccurate in any material respect, in each case at any time from and after the date of this Agreement until the Effective Time (individually, a "Noticed Event" and collectively, the "Noticed Events"), or (b) any material failure of the Buyer and the Transitory Subsidiary or the Company, as the case may be, or of any officer, director, employee or agent thereof, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under this Agreement. Notwithstanding the above, the delivery of any notice pursuant to this Section will not limit or otherwise affect the remedies available hereunder to the party receiving such notice or the conditions to such party's obligation to consummate the Merger except as specifically set forth hereafter. If either the Buyer or the Company is required to give notice hereunder it may, solely with respect to the occurrence, or failure to occur, of any such Noticed Event after the date hereof and prior to the Closing Date, update the Buyer Disclosure Schedule or the Company Disclosure Schedule, respectively, to reflect such Noticed Event and any such permitted update shall be deemed a part of the Buyer Disclosure Schedule or the Company Disclosure Schedule, as the case may be, for all purposes of this Agreement.

ARTICLE V
CONDITIONS TO CONSUMMATION OF MERGER

5.1 Intentionally Omitted.

5.2 Conditions to Obligations of the Buyer and the Transitory Subsidiary. The obligation of each of the Buyer and the Transitory Subsidiary to consummate the Merger is subject to the satisfaction (or waiver by the Buyer) on or prior to the Closing Date of the following additional conditions:

(a) the Company shall have obtained (and shall have provided copies thereof to the Buyer) all of the waivers, permits, consents, approvals or other authorizations as set forth in Section 2.4 of the Company Disclosure Schedule, and effected all of the registrations, filings and notices which are required on the part of the Company, including the release of any Security Interest on any property owned by the Company;

(b) the representations and warranties of the Company set forth in this Agreement shall be true and correct in all respects, except to the extent such representations and warranties are specifically made as of a particular date (in which case such representations and warranties shall be true and correct as of such date);

(c) the Company shall have performed or complied in all material respects with its agreements and covenants required to be performed or complied with under this Agreement as of or prior to the Effective Time;

(d) the Company shall have received the Requisite Stockholder Approval;

(e) no Legal Proceeding shall be pending or threatened wherein an unfavorable judgment, order, decree, stipulation or injunction would (i) prevent consummation of any of the transactions contemplated by this Agreement or (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, and no such judgment, order, decree, stipulation or injunction shall be in effect;

(f) the Company shall have delivered to the Buyer and the Transitory Subsidiary a certificate (the "Company Certificate") to the effect that each of the conditions specified in clauses (a) through (e) (insofar as clause (e) relates to Legal Proceedings involving the Company) of this Section 5.2 is satisfied in all material respects;

(g) the Buyer shall have received copies of the resignations, effective as of the Effective Time, of each director of the Company (other than any such resignations which the Buyer designates, by written notice to the Company, as unnecessary);

(h) the Buyer shall have received from the Company and the Stockholders' Representative an executed Escrow Agreement in the form attached hereto as Exhibit B;

(i) the Buyer shall have received from Russell L. Madris an executed Employment Agreement in the form attached hereto as Exhibit E and shall have received evidence reasonably satisfactory to the Buyer that the life of Mr. Madris is insurable at "select" or better ratings from reputable insurers;

(j) the Buyer shall have received from each of Scott J. Modist, James R. Garrity and Michael Diamant an executed Employment Agreements in the form attached hereto as Exhibit E-1 and shall have received evidence reasonably satisfactory to the Buyer that the life of each of Scott J. Modist, James R. Garrity and Michael Diamant is insurable at "select" or better ratings from reputable insurers;

(k) the Buyer shall have received from each programmer, developer and members of management of the Company executed copies of the Proprietary Information, Inventions and Confidentiality Agreement in the form attached hereto as Exhibit F;

(l) the Buyer shall have received from the Company copies of releases executed by and between the Company and each holder of Company Securities who receives the Initial Merger Consideration;

(m) the Buyer shall have received from counsel to the Company an opinion with respect to the matters set forth in Exhibit G attached hereto, addressed to the Buyer dated as of the Closing Date;

(n) the Company shall not have delivered any update to the Company Disclosure Schedule pursuant to Section 4.10 hereof and shall have delivered a certificate, executed by its President, to such effect;

(o) the Company shall cancel all Company Options and Company Warrants, it being understood by the parties that each Company Stockholder shall be an "accredited investor" as defined in Rule 502 promulgated under the Securities Act and each such holder shall be a party to this Agreement; and

(p) the Buyer shall have received such other certificates and instruments (including without limitation certificates of good standing of the Company in their jurisdiction of organization and the various foreign jurisdictions in which they are qualified, certified charter documents, certificates as to the incumbency of officers and the adoption of authorizing resolutions) as it shall reasonably request in connection with the Closing.

5.3 Conditions to Obligations of the Company. The obligation of the Company to consummate the Merger is subject to the satisfaction on or prior to the Closing of the following additional conditions:

(a) the representations and warranties of the Buyer and the Transitory Subsidiary set forth in this Agreement shall be true and correct in all respects, except to the extent such representations and warranties are specifically made as of a particular date (in which case such representations and warranties shall be true and correct as of such date);

(b) each of the Buyer and the Transitory Subsidiary shall have performed or complied in all material respects with its agreements and covenants required to be performed or complied with under this Agreement as of or prior to the Effective Time;

(c) no Legal Proceeding shall be pending or threatened wherein an unfavorable judgment, order, decree, stipulation or injunction would (i) prevent consummation of any of the transactions contemplated by this Agreement or (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, and no such judgment, order, decree, stipulation or injunction shall be in effect;

(d) the Buyer shall have delivered to the Company a certificate (the "Buyer Certificate") to the effect that each of the conditions specified in clauses (a) through (c) (insofar as clause (c) relates to Legal Proceedings involving the Buyer or the Transitory Subsidiary) of this Section 5.3 is satisfied in all material respects;

(e) the Buyer shall have delivered to the Company Stockholders the Initial Merger Consideration;

(f) the Company shall have received from the Buyer an executed Escrow Agreement in the form attached hereto as Exhibit B;

(g) the Buyer shall have deposited with the Escrow Agent the Escrow Amount;

(h) the Buyer shall have delivered to the Stockholders' Representative the Contingent Note in the form attached hereto as Exhibit C and the Buyer Guaranty in the form attached hereto as Exhibit D;

(i) the Buyer shall have delivered to the Company and Russell L. Madris an executed Employment Agreement in the form attached hereto as Exhibit E;

(j) the Company shall have received from counsel to the Buyer and the Transitory Subsidiary an opinion with respect to the matters set forth in Exhibit H attached hereto, addressed to the Company and dated as of the Closing Date;

(k) the Buyer shall not have delivered any update to the Buyer Disclosure Schedule pursuant to Section 4.10 hereof and shall have delivered a certificate, executed by its President, to such effect; and

(l) the Company shall have received such other certificates and instruments (including without limitation certificates of good standing of the Buyer and the Transitory Subsidiary in their jurisdiction of organization, certified charter documents, certificates as to the incumbency of officers and the adoption of authorizing resolutions) as it shall reasonably request in connection with the Closing.

ARTICLE VI INDEMNIFICATION

6.1 Indemnification by Russell L. Madris. The Company prior to the Closing and Russell L. Madris on and after the Closing shall indemnify the Buyer in respect of, and hold it harmless against, any and all debts, obligations and other liabilities (whether absolute, accrued, contingent, fixed or otherwise, or whether known or unknown, or due or to become due or otherwise), monetary damages, fines, fees, penalties, interest obligations, deficiencies, losses and expenses (including without limitation amounts paid in settlement, interest, court costs, costs of investigators, fees and expenses of attorneys, accountants, financial advisors and other experts, and other expenses of litigation) ("Damages") incurred or suffered by the Surviving Corporation or the Buyer or any Affiliate thereof resulting from, relating to or constituting:

(a) any breach of any representation or warranty of the Company contained in this Agreement;

(b) any failure to perform any covenant or agreement of the Company contained in this Agreement;

(c) any failure of the Company Stockholders to have good, valid and marketable title to the issued and outstanding Company Capital Stock issued in the name of the Company Stockholders, free and clear of all Security Interests;

(d) any claim by a stockholder or former stockholder, optionholder or former optionholder, warrant holder or former warrant holder, of the Company, or any other person or entity, seeking to assert, or based upon: (i) ownership or rights to ownership of any shares of stock of the Company; (ii) any rights of a stockholder (including the right to receive the Per

Share Merger Consideration pursuant to this Agreement or appraisal rights under the applicable provisions of the FBCA), including any option, preemptive rights or rights to notice or to vote; (iii) any rights under the Articles of Incorporation or By-laws of the Company; or (iv) any claim that his, her or its shares were wrongfully repurchased by the Company;

(e) any Taxes of the Company with respect to any Tax year or portion thereof ending on or ended before the Closing Date including, without limitation, any Tax liability arising out of the failure of the Company to qualify as an S corporation including the loss of tax benefits arising out of the inability of the Buyer to make an effective Section 338(h)(10) election pursuant to Section 4.7 of this Agreement, but excluding any Tax liability payable by the Company (and not the Company Stockholders) arising out of any Section 338(h)(10) Election (the Company Stockholders acknowledge that the Buyer has been induced to enter into this Agreement and has agreed to the Merger Consideration on the basis of representations of the Company and the Company Stockholders, including, without limitation, a representation that the Company is qualified as a Subchapter S corporation under the Code); or

(f) any distribution made pursuant to Section 4.2(a)(A)(ii) to the extent such distribution exceeds the actual amount of Taxes (other than the S Corporation Stockholder Tax Liability) payable by the Company Stockholders for the periods referred to in Section 4.2(a)(A)(i) and any distribution to the extent it exceeds the distributions permitted under Section 4.2(a).

6.2 Indemnification by the Buyer.

(a) The Buyer shall indemnify the Company prior to the Closing and the Company Stockholders on or after the Closing in respect of, and hold them harmless against, any and all Damages incurred or suffered by the Company Stockholders resulting from, relating to or constituting any misrepresentation, breach of a representation or warranty or failure to perform any covenant or agreement of the Buyer or the Transitory Subsidiary contained in this Agreement or the Buyer Certificate; or

(b) The Buyer shall indemnify, or cause the Company to indemnify, the Company Stockholders to the extent the distribution made pursuant to Section 4.2(a)(A)(ii) is less than the amount of the actual S Corporation Stockholder Tax Liability.

6.3 Indemnification Claims.

(a) A party entitled, or seeking to assert rights, to indemnification under this Article VI (an "Indemnified Party") shall give written notification to the party from whom indemnification is sought (an "Indemnifying Party") of the commencement of any suit or proceeding relating to a third party claim for which indemnification pursuant to this Article VI may be sought. Such notification shall be given within 20 business days after receipt by the Indemnified Party of notice of such suit or proceeding, and shall describe in reasonable detail (to the extent known by the Indemnified Party) the facts constituting the basis for such suit or proceeding and the amount of the claimed damages; provided, however, that no delay on the part of the Indemnified Party in notifying the Indemnifying Party shall relieve the Indemnifying Party of any liability or obligation hereunder except to the extent of any damage or liability caused by

or arising out of such failure. Within 20 days after delivery of such notification, the Indemnifying Party may, upon written notice thereof to the Indemnified Party, assume control of the defense of such suit or proceeding with counsel reasonably satisfactory to the Indemnified Party. If the Indemnifying Party does not so assume control of such defense, the Indemnified Party shall control such defense. The party not controlling such defense (the "Non-controlling Party") may participate therein at its own expense; provided that if the Indemnified Party reasonably concludes that the Indemnifying Party and the Indemnified Party have conflicting interests or different defenses available with respect to such suit or proceeding, the Indemnifying Party shall not have the right to assume control of such defense and the reasonable fees and expenses of counsel to the Indemnified Party shall be considered "Damages" for purposes of this Agreement. The party controlling such defense (the "Controlling Party") shall keep the Non-controlling Party advised of the status of such suit or proceeding and the defense thereof and shall consider in good faith recommendations made by the Non-controlling Party with respect thereto. The Non-controlling Party shall furnish the Controlling Party with such information as it may have with respect to such suit or proceeding (including copies of any summons, complaint or other pleading which may have been served on such party and any written claim, demand, invoice, billing or other document evidencing or asserting the same) and shall otherwise cooperate with and assist the Controlling Party in the defense of such suit or proceeding. The Indemnifying Party shall not agree to any settlement of, or the entry of any judgment arising from, any such suit or proceeding without the prior written consent of the Indemnified Party, which shall not be unreasonably withheld or delayed; provided that the consent of the Indemnified Party shall not be required if the Indemnifying Party agrees in writing to pay any amounts payable pursuant to such settlement or judgment and such settlement or judgment includes a complete release of the Indemnified Party from further liability and has no other adverse effect on the Indemnified Party. The Indemnified Party shall not agree to any settlement of, or the entry of any judgment arising from, any such suit or proceeding without the prior written consent of the Indemnifying Party, which shall not be unreasonably withheld or delayed.

(b) In order to seek indemnification under this Article VI, an Indemnified Party shall give written notification (a "Claim Notice") to the Indemnifying Party which contains (i) a description and the amount (the "Claimed Amount") of any Damages incurred or reasonably expected to be incurred by the Indemnified Party, (ii) a statement that the Indemnified Party is entitled to indemnification under this Article VI for such Damages and a reasonable explanation of the basis therefor, and (iii) a demand for payment (in the manner provided in paragraph (c) below) in the amount of such Damages.

(c) Within 20 days after delivery of a Claim Notice, the Indemnifying Party shall deliver to the Indemnified Party and, if the Indemnifying Party is the Company Stockholders and the Escrow Agreement has not terminated pursuant to its terms, to the Escrow Agent a written response (the "Response") in which the Indemnifying Party shall: (i) agree that the Indemnified Party is entitled to receive all of the Claimed Amount (in which case the Response shall be accompanied by a payment by the Indemnifying Party to the Indemnified Party of the Claimed Amount, by check or by wire transfer, or the Response shall include written instructions directing the Escrow Agent to deliver the Claimed Amount to the Buyer from the Escrow Fund (or some combination thereof)); (ii) agree that the Indemnified Party is entitled to receive part, but not all, of the Claimed Amount (the "Agreed Amount") (in which case the Response shall be accompanied by a payment by the Indemnifying Party to the Indemnified

Party of the Agreed Amount, by check or by wire transfer, or the Response shall include written instructions directing the Escrow Agent to deliver the Agreed Amount to the Buyer from the Escrow Fund (or some combination thereof) or (iii) dispute that the Indemnified Party is entitled to receive any of the Claimed Amount. If no Response is delivered within 20 days after delivery of a Claim Notice, the Indemnifying Party shall be deemed to have agreed that the Indemnified Party is entitled to receive all of the Claimed Amount. If the Indemnifying Party shall not have agreed or be deemed to agree that the Indemnified Party is entitled to receive all of the Claimed Amount, such dispute shall be resolved pursuant to the procedures in Section 8.8 hereof. If the Indemnified Party is the Buyer, it shall seek to satisfy any Claimed Amount and any Agreed Amount by first applying amounts held pursuant to the Escrow Agreement or offsetting against amounts due under the (x) Escrowed Consideration as provided in Section 1.7(a) or (y) Earnout Consideration as set forth on Schedule A for the Fiscal Year in which such Claim Notice is made; provided, however, that any such application of amounts held pursuant to the Escrow Agreement or offset against amounts due under the Earnout Consideration for such Fiscal Year shall only satisfy any Claimed Amount or Agreed Amount to the extent such amounts held pursuant to the Escrow Agreement or due under the Earnout Consideration for such Fiscal Year would have been payable to the Company Stockholders pursuant to Section 1.7 hereof in the absence of an indemnification claim under this Article VI and if such amounts would not otherwise be so payable, the Indemnifying Party shall repay Merger Consideration previously paid in an amount sufficient to satisfy such Claimed Amount and/or Agreed Amount determined pursuant to this Article VI to be due that has not otherwise been paid (or deemed paid, after the application of this proviso). Notwithstanding any other provision in this Article VI, to the extent the Claimed Amount or Agreed Amount (together with any other unpaid Claimed Amounts or Agreed Amounts) determined pursuant to this Article VI to be due exceeds the amounts then held pursuant to the Escrow Agreement and the maximum amount of Earnout Consideration set forth on Schedule A that may be payable for the Fiscal Year in which such Claim Notice is made, the Buyer shall be entitled to obtain such amount directly from the Company Stockholders. In applying amounts held pursuant to the Escrow Agreement, in addition to following the procedures of this Article VI, the Buyer shall follow the procedures set forth in Section 3 of the Escrow Agreement.

(d) Notwithstanding the other provisions of this Section 6.3, if a third party asserts (other than by means of a lawsuit) that an Indemnified Party is liable to such third party for a monetary or other obligation which may constitute or result in Damages for which such Indemnified Party may be entitled to indemnification pursuant to this Article VI, and such Indemnified Party reasonably determines that it has a valid business reason to fulfill such obligation, then (i) such Indemnified Party shall be entitled to satisfy such obligation, without prior notice to or consent from the Indemnifying Party, (ii) such Indemnified Party may subsequently make a claim for indemnification in accordance with the provisions of this Article VI, and (iii) such Indemnified Party shall be reimbursed, in accordance with the provisions of this Article VI, for any such Damages for which it is entitled to indemnification pursuant to this Article VI (subject to the right of the Indemnifying Party to dispute the Indemnified Party's entitlement to indemnification, or the amount for which it is entitled to indemnification, under the terms of this Article VI).

(e) Any amounts paid pursuant to this Article VI shall be treated for tax purposes as an adjustment to the Merger Consideration.

6.4 Survival of Representations, Warranties, Covenants and Other Agreements. All representations and warranties, covenants and other agreements contained in this Agreement shall (a) survive the Closing and any investigation at any time made by or on behalf of an Indemnified Party and (b) shall expire on the date the Buyer files or should have filed after giving effect to any extensions granted by the appropriate governmental agency its financial statements for its fiscal year ending December 31, 2004 with the Securities and Exchange Commission, except that (i) the representations and warranties set forth in Sections 2.1, 2.2, 2.3, 3.1 and 3.2 and the covenants and other agreements shall survive the Closing without limitation and (ii) the representations and warranties set forth in Sections 2.8, 2.22 and 2.23 shall survive until 30 days following expiration of all statutes of limitation applicable to the matters referred to therein. If an Indemnified Party delivers to an Indemnifying Party, before expiration of a representation or warranty, either a Claim Notice based upon a breach of such representation or warranty, or a notice that, as a result a legal proceeding instituted by or claim made by a third party, the Indemnified Party reasonably expects to incur Damages (an "Expected Claim Notice"), then the applicable representation or warranty shall survive until, but only for purposes of, the resolution of the matter covered by such notice. If the legal proceeding or written claim with respect to which an Expected Claim Notice has been given is definitively withdrawn or resolved in favor of the Indemnified Party, the Indemnified Party shall promptly so notify the Indemnifying Party.

6.5 Limitations.

(a) Notwithstanding anything to the contrary herein, (i) the aggregate liability of Russell L. Madris for Damages under Section 6.1(a), (A) if resulting from any claim by a person or entity other than the Buyer made prior to the date the Buyer files or should have filed after giving effect to any extensions granted by the appropriate governmental agency its financial statements for its fiscal year ending December 31, 2003 with the Securities and Exchange Commission (the "Second Fiscal Year Date"), shall not exceed the Merger Consideration less \$10,000,000 of the Initial Merger Consideration, (B) if resulting from any other claim by the Buyer from the Closing Date through the Second Fiscal Year Date, shall not exceed the Merger Consideration less \$20,000,000 of the Initial Merger Consideration and (C) if claimed after the Second Fiscal Year Date shall not exceed the aggregate of the Escrowed Consideration and the Earnout Consideration whether or not previously paid, and (ii) Russell L. Madris shall be liable under Section 6.1(a) for only that portion of the aggregate Damages for which he would otherwise be liable which exceeds \$250,000; provided that the limitation set forth in this sentence shall not apply to a claim pursuant to Section 6.1(a) relating to a breach of the representations and warranties set forth in Sections 2.1, 2.2 or 2.3. For purposes solely of this Article VI, all representations and warranties of the Company in Article II (other than Section 2.35) shall be construed as if the term "material" and any reference to "Company Material Adverse Effect" (and variations thereof) were omitted from such representations and warranties.

(b) Notwithstanding anything to the contrary herein, (i) the aggregate liability of the Buyer for Damages under Section 6.2 with respect to any misrepresentation or breach of representation or warranty shall not exceed the amount of Merger Consideration for which Russell L. Madris would be liable under Section 6.5(a) above if such claim had been a claim brought by the Buyer, and (ii) the Buyer shall be liable under Section 6.2 with respect to any

misrepresentation or breach of representation or warranty for only that portion of the aggregate Damages for which it would otherwise be liable which exceeds \$250,000; provided that the limitation set forth in this sentence shall not apply to a claim pursuant to Section 6.2 relating to a misrepresentation, or breach of the representations and warranties, set forth in Sections 3.1 or 3.2. For purposes solely of this Article VI, all representations and warranties of the Buyer in Article III shall be construed as if the term "material" and any reference to "Buyer Material Adverse Effect" (and variations thereof) were omitted from such representations and warranties.

(c) Except with respect to claims based on fraud, after the Closing, the rights of the Indemnified Parties under this Article VI shall be the exclusive remedy of the Indemnified Parties with respect to claims resulting from or relating to any misrepresentation, breach of warranty or failure to perform any covenant or agreement contained in this Agreement.

(d) The Company Stockholders shall not have any right of contribution against the Company or the Surviving Corporation with respect to any breach by the Company of any of its representations, warranties, covenants or agreements whether under any indemnification provisions or otherwise.

ARTICLE VII TERMINATION

7.1 Termination of Agreement. The Parties may terminate this Agreement prior to the Effective Time (whether before or after Requisite Stockholder Approval), as provided below:

(a) by mutual written consent of the Company and the Buyer;

(b) by either the Buyer or the Company if the Merger shall not have been consummated by May 31, 2002 (the "Outside Date") (provided that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been a principal cause of or resulted in the failure of the Merger to occur on or before the Outside Date);

(c) by the Buyer in the event the Company is in breach of any representation, warranty or covenant contained in this Agreement, and such breach, individually or in combination with any other such breach, (i) would cause the conditions set forth in clauses (b) or (c) of Section 5.2 not to be satisfied and (ii) is not cured within 20 days following delivery by the Buyer to the Company of written notice setting forth in reasonable detail the circumstances giving rise to such breach;

(d) by the Company in the event the Buyer or the Transitory Subsidiary is in breach of any representation, warranty or covenant contained in this Agreement, and such breach, individually or in combination with any other such breach, (i) would cause the conditions set forth in clauses (a) or (b) of Section 5.3 not to be satisfied and (ii) is not cured within 20 days following delivery by the Company to the Buyer of written notice setting forth in reasonable detail the circumstances giving rise to such breach; or

(e) by the Buyer, if the Company shall have delivered an update to the Company Disclosure Schedule pursuant to Section 4.10 hereof, or by the Company, if the Buyer shall have delivered an update to the Buyer Disclosure Schedule pursuant to Section 4.10 hereof.

7.2 Effect of Termination. Any right of termination hereunder shall be exercised by written notice of termination given by the terminating Party to the other Parties in the manner provided in Section 8.7 below. If any Party terminates this Agreement pursuant to Section 7.1, all obligations of the Parties (other than those set forth in the Confidentiality Agreement as amended hereby) hereunder shall terminate without any liability of any Party to any other Party (except for any liability of any Party for willful breaches of this Agreement or for payment of expenses pursuant to the last sentence of Section 4.4 hereof).

ARTICLE VIII MISCELLANEOUS

8.1 Press Releases and Announcements. Neither the Company nor any representative or agent of the Company shall issue any press release or public announcement relating to the subject matter of this Agreement without the prior written approval of the Buyer. The Buyer may make any public disclosure it believes in good faith is required by applicable law, regulation or stock market rule (in which case the Buyer shall use reasonable efforts to advise the Company and provide it with a copy of the proposed disclosure prior to making the disclosure).

8.2 No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any person other than the Parties and their respective successors and permitted assigns except as expressly provided for in this Agreement; provided, however, that (a) the provisions in Article I concerning payment of the Per Share Merger Consideration and (b) the provisions of Article VI concerning indemnification are intended for the benefit of the Company Stockholders.

8.3 Entire Agreement. This Agreement (including the documents referred to in Article V and elsewhere herein) constitutes the entire agreement among the Parties and supersedes any prior understandings, agreements or representations by or among the Parties, written or oral, with respect to the subject matter hereof, including, without limitation, the Letter, dated December 17, 2001, from the Buyer to the Company. Notwithstanding the foregoing, the Parties acknowledge the letter of even date herewith from the Buyer to the Company and acknowledged by the Company expressing the respective agreement of each concerning operations of the Surviving Corporation following the Closing.

8.4 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of the other Parties; provided that the Transitory Subsidiary may assign its rights, interests and obligations hereunder to an Affiliate of the Buyer.

8.5 Counterparts and Facsimile Signature. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall

constitute one and the same instrument. This Agreement may be executed by facsimile signature.

8.6 Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

8.7 Notices. All notices, requests, demands, claims, and other communications hereunder shall be in writing. Any notice, request, demand, claim or other communication hereunder shall be deemed duly delivered four business days after it is sent by registered or certified mail, return receipt requested, postage prepaid, or one business day after it is sent for next business day delivery via a reputable nationwide overnight courier service, in each case to the intended recipient as set forth below:

If to the Company:	Copy to:
MoreDirect, Inc. 7300 N. Federal Highway Suite 200 Boca Raton, FL 33487 Attn: Russell L. Madris, President Telephone: (501) 237-3300 Facsimile: (501) 423-5172	Greenberg Traurig LLP 1221 Brickell Avenue Miami, FL 33131 Attn: Andrew E. Balog, Esq. Telephone: (305) 579-0500 Facsimile: (305) 579-0717

If to the Stockholders' Representative:	Copy to:
Russell L. Madris c/o MoreDirect, Inc. 7300 N. Federal Highway Suite 200 Boca Raton, FL 33487 Telephone: (501) 237-3300 Facsimile: (501) 423-5172	Greenberg Traurig LLP 1221 Brickell Avenue Miami, FL 33131 Attn: Andrew E. Balog, Esq. Telephone: (305) 579-0500 Facsimile: (305) 579-0717

If to the Buyer or the Transitory Subsidiary:	Copy to:
PC Connection, Inc. Route 101A, 730 Milford Road Merrimack, NH 03054 Attn: Chief Financial Officer Telephone: (603) 423-2000 Facsimile: (603) 423- 2041	Hale and Dorr LLP 60 State Street Boston, MA 02109 Attn: Jay E. Bothwick, Esq. Telephone: (617) 526-6000 Facsimile: (617) 526-5000

Any Party may give any notice, request, demand, claim or other communication hereunder using any other means (including personal delivery, expedited courier, messenger service, telecopy, telex, ordinary mail or electronic mail), but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the party for whom it is intended. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

8.8 Arbitration of Disputes. Disputes concerning the determination of the calculation of EBIT for each Fiscal Year shall be settled as provided for in Section 1.7(e). Disputes concerning the letter of even date herewith from the Buyer to the Company shall be settled as provided for therein. Any other controversy or claim arising out of or relating to this Agreement, or a breach thereof, shall be settled according to the following provisions:

(a) The Buyer and the Stockholders Representative shall first use reasonable efforts to resolve the dispute.

(b) If the Buyer and the Stockholders Representative are unable to resolve such dispute within 20 days of the commencement of the dispute, the dispute shall be submitted to binding arbitration to be conducted in Concord, New Hampshire before a panel of three arbitrators (the "Arbitrators") in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "AAA") and the procedures set forth herein.

(c) In the event of any conflict between the Commercial Rules in effect from time to time and the provisions of this Agreement, the provisions of this Agreement shall prevail and be controlling.

(d) Either the Buyer or the Stockholders Representative may commence the arbitration by filing a written submission with the Boston, Massachusetts office of the AAA in accordance with Rule 4 (or any successor provision) of the Commercial Arbitration Rules and the other shall respond in accordance with said Rule 4 (or any successor provision). Each of the Buyer and the Stockholders Representative shall select one Arbitrator from the list provided by the AAA consistent with Rule 13(a) (or any successor provision) and the two Arbitrators so chosen (or the AAA) shall jointly select a third in accordance with Rule 15 (or any successor provision).

(e) The Arbitrators' determination shall be governed by and construed in accordance with the internal laws of the State of New Hampshire. Any determination rendered by the Arbitrators shall be final, conclusive and binding upon the parties hereto, and judgment thereon may be entered and enforced in any court of competent jurisdiction within the State of New Hampshire, provided that the Arbitrators shall have no power or authority to grant injunctive relief, specific performance or other equitable relief although any court enforcing such award shall specifically be authorized to grant such relief. Either the Buyer or the Stockholders Representative may provide a copy of the Arbitrators' determination to the Escrow Agent under the Escrow Agreement.

(f) The Arbitrators shall have no power or authority, under the Commercial Rules or otherwise, to (x) modify or disregard any provision of this Agreement, (y) address or resolve any issue not submitted by the parties, or (z) award multiple, consequential, punitive or exemplary damages.

(g) In connection with any arbitration proceeding pursuant to this Agreement, unless the Arbitrators shall determine otherwise, each party shall bear its own costs and expenses, except that the fees and costs of the AAA and the Arbitrators, the costs and expenses of obtaining the facility where the arbitration hearing is held, and such other costs and expenses as the Arbitrators may determine to be directly related to the conduct of the arbitration and appropriately borne jointly by the parties.

(h) Notwithstanding the applicability of the AAA's Emergency Interim Relief Procedures, a party may initiate an action in a court of competent jurisdiction and may seek interim measures (including without limitation temporary restraining orders and preliminary injunctions) necessary to protect the interests of such party pending the arbitration. In such case, the court shall be free to act on all requests for interim measures from time to time, but shall otherwise stay the action pending the arbitration (which the court may compel). If any such action is still pending at the time of the Arbitrators' award, either party may apply to such court for entry of judgment on, and enforcement of, the arbitrator's award, including without limitation any equitable relief awarded by the Arbitrators.

8.9 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New Hampshire without giving effect to any choice or conflict of law provision or rule (whether of the State of New Hampshire or any other jurisdiction) that would cause the application of laws of any jurisdictions other than those of the State of New Hampshire; provided that matters related to filings made under the FBCA and the effect of the Merger shall be governed by Florida law.

8.10 Submission to Jurisdiction. Each of the Parties submits to the exclusive jurisdiction of all state or federal courts sitting in the State of New Hampshire in any suit, action or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby, agrees that all claims in respect of any suit, action or proceeding may be heard and determined in any such court and irrevocably and unconditionally agrees not to bring any suit, action or proceeding arising out of or relating to the this Agreement or the transactions contemplated hereby in any other court. Service of process, summons, notice or document by mail to a Party's address set forth above shall be effective service of process for any suit, action or proceeding brought in any such court.

8.11 Amendments and Waivers. The Parties may mutually amend any provision of this Agreement at any time prior to the Effective Time. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by all of the Parties. No waiver of any right or remedy hereunder shall be valid unless the same shall be in writing and signed by the Party giving such waiver. No waiver by any Party with respect to any default, misrepresentation or breach of warranty or covenant hereunder shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

8.12 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the Parties agree that the court making the determination of invalidity or unenforceability shall have the power to limit the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision, and this Agreement shall be enforceable as so modified.

8.13 Interpretation. When reference is made in this Agreement to an Article or a Section, such reference shall be to an Article or Section of this Agreement, unless otherwise indicated. The table of contents, table of defined terms and headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement. The language used in this Agreement shall be deemed to be the language chosen by the Parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any Party. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural, and vice versa. Any reference to any federal, state, local or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." No summary of this Agreement prepared by any Party shall affect the meaning or interpretation of this Agreement.

8.14 Remedies. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a Party shall be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such Party, and the exercise by a Party of any one remedy shall not preclude the exercise of any other remedy. The Parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which the Parties are entitled at law or in equity.

8.15 WAIVER OF JURY TRIAL. EACH OF THE BUYER, THE TRANSITORY SUBSIDIARY AND THE COMPANY HEREBY IRREVOCABLY WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THE ACTIONS OF THE BUYER, THE TRANSITORY SUBSIDIARY OR THE COMPANY IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE AND ENFORCEMENT OF THIS AGREEMENT.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

PC CONNECTION, INC.

/s/ Wayne L. Wilson

Name:
Title:

BOCA ACQUISITION CORP.

/s/ Wayne L. Wilson

Name:
Title:

MOREDIRECT, INC.

/s/ Russell Madris

Name:
Title:

COMPANY STOCKHOLDERS

/s/ Russell Madris

Russell L. Madris

/s/ Michael Diamant

Michael Diamant

/s/ James R. Garrity

James R. Garrity

/s/ Scott J. Modist

Scott J. Modist

SCHEDULE A
Earnout Consideration under Section 1.7(b) of the Merger Agreement

(amounts set forth in the following tables are in thousands)

Fiscal Year 2002				Fiscal Year 2003				
% of Goal	EBIT	% of EBIT	Earnout Consideration	% of Goal	EBIT	% of EBIT	Earnout Consideration	
Floor	60%	\$ 7,590	41%	3,112	60%	\$ 8,729	41%	3,579
	80%	10,120	41%	4,149	80%	11,638	41%	4,772
	100%	12,650	41%	5,187	100%	14,548	41%	5,964
	120%	15,180	44%	6,679	120%	17,457	44%	7,681
	140%	17,710	47%	8,324	140%	20,367	47%	9,572
	150%	18,975	50%	9,488	150%	21,821	50%	10,911
	160%	20,240	53%	10,727	160%	23,276	53%	12,336
	170%	21,505	56%	12,043	170%	24,731	56%	13,849
	180%	22,770	59%	13,434	180%	26,186	59%	15,449
	190%	24,035	62%	14,902	190%	27,640	62%	17,137
Ceiling	200%	25,300	65%	16,445	200%	29,095	65%	18,912

Fiscal Year 2004				
% of Goal	EBIT	% of EBIT	Earnout Consideration	
Floor	60%	\$10,038	41%	4,115
	80%	13,384	41%	5,487
	100%	16,730	41%	6,859
	120%	20,076	44%	8,833
	140%	23,421	47%	11,008
	150%	25,094	50%	12,547
	160%	26,767	53%	14,187
	170%	28,440	56%	15,927
	180%	30,113	59%	17,767
	190%	31,786	62%	19,707
Ceiling	200%	33,459	65%	21,749

If EBIT in Fiscal 2002, 2003 or 2004 is below the 60% of goal (as set forth in the above table for the respective Fiscal Year), no EBIT Consideration payment shall be made for the respective Fiscal Year.

If EBIT in Fiscal 2002, 2003 or 2004 is above 200% of goal (as set forth in the above table for the respective Fiscal Year), the EBIT Consideration payment shall not exceed the amount set forth at 200% of goal (as set forth in the above table for the respective Fiscal Year) regardless of the EBIT achieved for the respective Fiscal Year.

If EBIT in Fiscal 2002, 2003 or 2004 falls between any percentage of goal (as set forth in the above table for the respective Fiscal Year), the EBIT Consideration payment shall be equal to the product of the prior percentage of EBIT (as set forth in the above table for the respective Fiscal Year) and the actual EBIT amount earned in the respective Fiscal Year.

For illustrative purposes only,

if EBIT in Fiscal Year 2002 is \$6,000,000, then the Earnout Consideration is \$0

if EBIT in Fiscal Year 2002 is \$16,000,000, then the Earnout Consideration is \$7,040,000 (44% * \$16,000,000)

if EBIT in Fiscal Year 2002 is \$26,000,000, then the Earnout Consideration is \$16,445,000

For illustrative purposes only,

if EBIT in Fiscal Year 2003 is \$8,000,000, then the Earnout Consideration is \$0

if EBIT in Fiscal Year 2003 is \$12,000,000, then the Earnout Consideration is \$4,920,000 (41% * \$12,000,000)

if EBIT in Fiscal Year 2003 is \$30,000,000, then the Earnout Consideration is \$18,912,000

For illustrative purposes only,

if EBIT in Fiscal Year 2004 is \$10,000,000, then the Earnout Consideration is \$0

if EBIT in Fiscal Year 2004 is \$17,000,000, then the Earnout Consideration is \$6,970,000 (41% * \$17,000,000)

if EBIT in Fiscal Year 2004 is \$35,000,000, then the Earnout Consideration is \$21,749,000

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-66450, 333-40172, 333-83943, 333-69981, 333-50847, and 333-50845 of PC Connection, Inc. on Form S-8 of our report dated January 24, 2002 (March 25, 2002 as to Note 15), in this Annual Report on Form 10-K of PC Connection, Inc. for the year ended December 31, 2001.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
March 27, 2002