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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

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 incorporation or organization)	(I.R.S. Employer Identification No.)
730 MILFORD ROAD, MERRIMACK, NEW HAMPSHIRE	03054
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark ((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__ (check mark)__ NO______

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the issuer's Common Stock, $.01 par value, as of August 6, 2002 was 24,559,013.

PC CONNECTION, INC. AND SUBSIDIARIES
FORM 10-Q

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INDEPENDENT ACCOUNTANTS' REPORT

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

We have reviewed the accompanying condensed consolidated balance sheet of PC Connection, Inc. and subsidiaries (the "Company") as of June 30, 2002, and the related condensed consolidated statements of operations for the three-month and six-month periods ended June 30, 2002 and 2001 and the condensed consolidated statement of changes in stockholders' equity for the six-month period ended June 30, 2002, and the condensed consolidated statements of cash flows for the six- month periods ended June 30, 2002 and 2001. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of PC Connection, Inc. and subsidiaries as of December 31, 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 24, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2001 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
July 17, 2002

PC CONNECTION, INC. AND SUBSIDIARIES
Part I--Financial Information
Item 1--Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands)

	June 30, 2002 (unaudited)	December 31, 2001
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26,173	$ 35,605
Accounts receivable, net	121,922	117,461
Inventories--merchandise	34,462	48,003
Deferred income taxes	2,378	2,304
Income taxes receivable	3,874	1,312
Prepaid expenses and other current assets	2,820	3,013
Total current assets	191,629	207,698
Property and equipment, net	28,591	27,472
Goodwill, net and other intangibles, net	26,826	8,807
Restricted cash	10,000	--
Other assets	349	258
Total assets	$257,395	$244,235
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	$ 180	$ 171
Current maturities of long-term debt	500	1,000
Accounts payable	89,413	75,399
Accrued expenses and other liabilities	11,595	10,272
Total current liabilities	101,688	86,842
Capital lease obligation to affiliate, less current maturities	6,529	6,621
Deferred income taxes	3,736	3,523
Other liabilities	31	73
Total liabilities	111,984	97,059
Stockholders' Equity:		
Common stock	248	247
Additional paid-in capital	74,838	74,393
Retained earnings	72,310	74,073
Treasury stock at cost	(1,985)	(1,537)
Total stockholders' equity	145,411	147,176
Total liabilities and stockholders' equity	$257,395	$244,235

See accompanying notes to condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
Part I--Financial Information
Item 1--Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net sales	$292,188	$297,338	$528,348	$599,113
Cost of sales	260,738	264,486	471,917	530,936
Gross profit	31,450	32,852	56,431	68,177
Selling, general and administrative expenses	30,652	30,653	58,141	61,116
Restructuring costs and other special charges	105	--	918	851
Income (loss) from operations	693	2,199	(2,628)	6,210
Interest expense	(296)	(277)	(538)	(654)
Other, net	132	396	327	684
Income (loss) before taxes	529	2,318	(2,839)	6,240
Income tax (provision) credit	(204)	(882)	1,076	(2,371)
Net income (loss)	$ 325	$ 1,436	$ (1,763)	$ 3,869
Weighted average common shares outstanding:				
Basic	24,553	24,422	24,552	24,419
Diluted	24,833	24,994	24,552	24,965
Earnings (loss) per common share:				
Basic	$ .01	$ .06	$ (.07)	$ .16
Diluted	$ .01	$ .06	$ (.07)	$ .16

See accompanying notes to condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
Part I--Financial Information
Item 1--Financial Statements
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Six Months Ended June 30, 2002
(Unaudited)
(amounts in thousands)

	Common Stock		Additional Paid In	Retained	Treasury Shares		
	Shares	Amount	Capital	Earnings	Shares	Amount	Total
Balance--December 31, 2001	24,748	$247	$74,393	$74,073	(205)	$(1,537)	$147,176
Exercise of stock options, including income tax benefits	18	--	133	--	--	--	133
Issuance of stock under employee stock purchase plan	89	1	312	--	--	--	313
Repurchase of common stock for treasury	--	--	--	--	(91)	(448)	(448)
Net loss	--	--	--	(1,763)	--	--	(1,763)
Balance--June 30, 2002	24,855	$248	$74,838	$72,310	(296)	$(1,985)	$145,411

See accompanying notes to condensed consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
Part I--Financial Information
Item 1--Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Cash Flows from Operating Activities:		
Net income (loss)	$ (1,763)	$ 3,869
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,787	3,820
Deferred income taxes	139	(80)
Provision for doubtful accounts	3,237	5,346
(Gain)/loss on disposal of fixed assets	(2)	12
Changes in assets and liabilities:		
Accounts receivable	21,213	20,971
Inventories	13,859	9,686
Prepaid expenses and other current assets	(2,039)	5,056
Other non-current assets	(63)	(382)
Accounts payable	(8,888)	(4,768)
Income tax benefits from exercise of stock options	26	8
Accrued expenses and other liabilities	(2,381)	(4,086)
Net cash provided by operating activities	27,125	39,452
Cash Flows from Investing Activities:		
Purchases of property and equipment	(3,370)	(4,237)
Proceeds from sale of property and equipment	9	12
Payments for acquisitions, net of cash acquired	(22,585)	--
Cash escrow funded for acquisition	(10,000)	--
Net cash used for investing activities	(35,946)	(4,225)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings	5,521	47,020
Repayment of short-term borrowings	(5,521)	(47,020)
Repayment of capital lease obligation to affiliate	(83)	(74)
Repayment of notes payable	(500)	--
Exercise of stock options	107	132
Issuance of stock under employee stock purchase plan	313	728
Purchase of treasury shares	(448)	--
Net cash provided by (used for) financing activities	(611)	786
Increase (decrease) in cash and cash equivalents	(9,432)	36,013
Cash and cash equivalents, beginning of period	35,605	7,363
Cash and cash equivalents, end of period	$ 26,173	$ 43,376

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1--Basis of Presentation

The accompanying condensed consolidated financial statements of PC Connection, Inc. and Subsidiaries ("PCC") have been prepared in accordance with accounting principles generally accepted in the United States of America. Such principles were applied on a basis consistent with those of the financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission ("SEC"). The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements contained in our Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation. The operating results for the three and six months ended June 30, 2002 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2002.

In January 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." The principles set forth in this standard were applied to our acquisition of MoreDirect described in Note 7 to the condensed consolidated financial statements. Previous business combinations had been accounted for under Accounting Principles Board Opinion No. 16. There was no effect on the financial statements when the standard was adopted. We also adopted SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. SFAS No. 142 required, among other things, the discontinuance of the amortization of goodwill and certain other identified intangibles. It also required a January 1, 2002 reassessment of the recoverability of the goodwill that was carried on our financial statements. We have ceased amortization of goodwill in 2002. The following is a reconciliation of reported net income (loss) to adjusted net income (loss) for the three and six months ended June 30, 2002 and 2001, taking into account the cessation of goodwill amortization:

	Three Months Ended		Six Months Ended	
June 30, (amounts in thousands, except per share data)	2002	2001	2002	2001
Reported net income (loss)	$325	$1,436	$(1,763)	$3,869
Add back goodwill amortization (net of taxes)	--	109	--	218
Adjusted net income (loss)	$325	$1,545	$(1,763)	$4,087
Diluted earnings (loss) per share:				
Reported net income (loss)	$.01	$ .06	$ (.07)	$ .16
Add back goodwill amortization (net of taxes)	--	--	--	--
Adjusted net income (loss)	$.01	$ .06	$ (.07)	$ .16

SFAS No. 142 also 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 have completed the initial impairment review required by SFAS No. 142 and have determined that our goodwill and intangible assets were not impaired.

We also adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," on January 1, 2002. SFAS No. 144, among other things, modifies and updates the methodology for recognizing impairment in long-lived assets. The adoption of this standard did not have a significant impact on either the balance sheet or the statement of operations.

Note 1--Basis of Presentation--Cont'd.

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. We generally obtain oral or 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 government 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 delivery and a reserve for sales returns is recorded. We have 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.

The majority of our revenues relate to sales of physical products and are recognized on a gross basis with the selling price to the customer recorded as net sales and the acquisition cost of the product to us recorded as cost of sales. Certain product sales, third party services and extended warranties sold by us (for which we are not the primary obligor) are recognized on a net basis in accordance with Staff Accounting Bulletin No. 101.

All amounts billed to a customer in a sales transaction relating 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."

Accounts Receivable

We perform ongoing credit evaluations of our customers, and adjust credit limits as appropriate, based on payment history and customer credit-worthiness. We maintain an allowance for estimated doubtful accounts based on our historical experience and the customer credit issues identified. Collections are monitored continuously, and the allowance is adjusted as necessary to recognize any changes in credit exposure.

We enter into contracts with the Federal Government requiring fees to be paid on certain sales. These fees are subject to audit by the Federal Government. As a result of these audits, we may be required to pay additional fees.

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, based on management's forecast of customer demand for those products in inventory.

Restricted--Cash

In connection with the acquisition of MoreDirect, Inc. (see Note 7--Acquisition of MoreDirect, Inc.), a $10 million cash escrow was established to fund a portion of the contingent consideration.

Note 2--Earnings (Loss) Per Share

Basic earnings (loss) per common share is computed using the weighted average number of shares outstanding. Diluted earnings (loss) per common share are computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to options outstanding to purchase common stock, if dilutive.

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

	Three Months Ended		Six Months Ended	
June 30, (amounts in thousands, except per share data)	2002	2001	2002	2001
Numerator:				
Net income	$ 325	$ 1,436	$(1,763)	$ 3,869
Denominator:				
Denominator for basic earnings per share:				
Weighted average shares	24,553	24,422	24,552	24,419
Dilutive effect of unexercised employee stock options:	280	572	--	546
Denominator for diluted earnings per share	24,833	24,994	24,552	24,965
Earnings per share:				
Basic	$ .01	$ .06	$ (.07)	$ .16
Diluted	$ .01	$ .06	$ (.07)	$ .16

The following unexercised stock options were excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2002 and 2001 because the effect of the options on the calculation would have been anti-dilutive:

	Three Months Ended		Six Months Ended	
June 30, (amounts in thousands)	2002	2001	2002	2001
Anti-dilutive stock options	2,258	598	2,908	608

Note 3--Reporting Comprehensive Income

We have no other comprehensive income in any of the periods presented. Accordingly, a separate statement of comprehensive income is not presented.

Note 4--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.

In January 2002 we reorganized our operations to create two reportable operating segments--the "Public Sector" segment, which serves federal, state and local governmental organizations and educational institutions, Note 4--Segment and Related Disclosures--Cont'd.

and the "SMB" segment, which serves small and medium-sized businesses, as well as consumers. In April 2002, we acquired MoreDirect, Inc.--the "Large Corporate Accounts" segment, which serves medium-to-large corporations.

Segment information applicable to our reportable operating segments for the three and six months ended June 30, 2002 is shown below:

(amounts in thousands)	Three Months Ended June 30, 2002				
	SMB Segment	Public Sector Segment	Large Corp Accts. Segment	Eliminations	Consolidated
Sales to external customers	$173,871	$ 64,468	$53,849	$ --	$292,188
Transfers between segments.	49,489	--	--	(49,489)	--
Net sales..................	$223,360	$ 64,468	$53,849	$(49,489)	$292,188
Operating income (loss)....	$ (187)	$ (1,539)	$ 2,419	$ --	$ 693
Interest and other--net....	(192)	5	23	--	(164)
Income (loss) before taxes.	$ (379)	$ (1,534)	$ 2,442	$ --	$ 529

(amounts in thousands)	Six Months Ended June 30, 2002				
	SMB Segment	Public Sector Segment	Large Corp. Accts. Segment	Eliminations	Consolidated
Sales to external customers	$359,423	$115,076	$53,849	$ --	$528,348
Transfers between segments.	82,747	--	--	(82,747)	--
Net sales..................	$442,170	$115,076	$53,849	$(82,747)	$528,348
Operating income (loss)....	$ (2,335)	$ (2,712)	$ 2,419	$ --	$ (2,628)
Interest and other--net....	(255)	21	23	--	(211)
Income (loss) before taxes.	$ (2,590)	$ (2,691)	$ 2,442	$ --	$ (2,839)
Total assets...............	$172,448	$ 60,958	$54,670	$(30,681)	$257,395

General and administrative expenses were charged to the reportable operating segments, based on their estimated usage of the underlying functions. Interest and other expense was charged to the segments, based on the actual costs incurred by each segment, net of interest and other income generated. The amount shown above representing total assets eliminated consists of inter-segment receivables, resulting primarily from inter-segment sales and transfers reported above and from inter-segment service charges.

In 2001 we had only one reportable operating segment. It is impractical for us to restate prior year balances into the operating segments established in 2002. Senior management monitored revenue in 2001 and 2002 by sales channel (Corporate Outbound, Inbound Telesales and Online Internet) and product mix (Notebooks, Desktops and Servers, Storage Devices, Software, Networking Communications, Printers, Video and Monitors, Memory and Accessories and Other).

Note 4--Segment and Related Disclosures--Cont'd.

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

	Three Months Ended		Six Months Ended	
June 30, (amounts in thousands)	2002	2001	2002	2001
Sales Channel				
Corporate Outbound	$226,816	$234,026	$406,122	$467,361
Inbound Telesales	22,509	37,234	51,025	77,276
On-Line Internet	42,863	26,078	71,201	54,476
Total	$292,188	$297,338	$528,348	$599,113
Product Mix				
Notebooks	$ 44,240	$ 58,846	$ 80,903	$129,567
Desktop/Servers	45,250	37,710	79,627	76,539
Storage Devices	28,089	29,175	52,430	59,139
Software	41,115	39,457	75,007	76,475
Networking Communications	24,530	27,613	45,514	54,598
Printers	27,122	26,142	47,924	50,052
Videos & Monitors	27,887	29,200	50,587	53,808
Memory	10,247	9,180	17,654	19,272
Accessories/Other	43,708	40,015	78,702	79,663
Total	$292,188	$297,338	$528,348	$599,113

Included in the above product mix sales are enterprise networking product sales of $67.1 million and $55.3 million for the three months ended June 30, 2002 and 2001, respectively, and $116.8 million and $114.0 million for the six months ended June 30, 2002 and 2001, respectively.

Substantially all of our net sales for the quarters ended June 30, 2002 and 2001 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 2% in those respective quarters. All of our assets at June 30, 2002 and December 31, 2001 were located in the United States. Except for the federal government, no single customer accounted for more than 4% of total net sales in the six months ended June 30, 2002 and 2001. Sales to the federal government accounted for $51.0 million, or 9.7% of total net sales for the six months ended June 30, 2002, and $51.4 million, or 8.6% of total net sales for the six months ended June 30, 2001.

Note 5--Credit Facility

In May 2002, we entered into a new $45 million credit facility that is secured by substantially all of our business assets. In July 2002, an additional lender committed to fund $10.0 million of this facility. Amounts outstanding under this facility bear interest at the prime rate (4.75% at June 30, 2002). The credit facility includes various customary financial and operating covenants, minimum net worth and maximum funded debt ratio requirements including restrictions on the payment of dividends, none of which we believe significantly restricts our operations. No borrowings were outstanding under this credit facility at June 30, 2002. The credit facility matures on June 30, 2004. Our former $70 million credit facility expired on May 31, 2002. Amounts outstanding under our former facility, which terminated in May 2002 did not exceed $6.3 million for the year ended December 31, 2001.

Note 6--Restructuring Costs and Other Special Charges

On March 15, 2002, we announced that we had settled litigation commenced by Microsoft Corporation involving alleged trademark and copyright infringement. 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 were included as a special charge in our first quarter 2002 financial results. We also took a $63,000 charge in the first quarter of 2002 and a $105,000 charge in the second quarter of 2002 related to staff reductions during each of the respective periods.

A rollforward of restructuring costs and other special charges for the six months ended June 30, 2002 is shown below:

(amounts in thousands)	Beginning Balance	Total Charges	Cash Payments	Liabilities at June 30, 2002
Settlement of Microsoft litigation charges	$ --	$750	$ (716)	$ 34
Workforce reduction......................	425	168	(527)	66
Total....................................	$425	$918	$(1,243)	$100

Note 7--Acquisition of MoreDirect, Inc.

On April 5, 2002, we completed the acquisition of MoreDirect, Inc. (MoreDirect) and it became a wholly-owned subsidiary of PC Connection, Inc. The acquisition of MoreDirect provides PC Connection a premier e-procurement supplier of information technology (IT) products for medium-to-large corporate and government organizations nationwide. MoreDirect's Internet-based system enables corporate and government customers to efficiently source, evaluate, purchase and track a wide variety of IT products.

Under the terms of the agreement, all outstanding stock options of MoreDirect were cashed out for approximately $4.1 million, which was funded by us, and we paid the sole shareholder of MoreDirect approximately $18.0 million in cash at closing. MoreDirect also distributed approximately $7.9 million to its sole shareholder from available cash balances for previously taxed but undistributed S Corporation earnings. In addition we will pay additional cash to the MoreDirect shareholder based upon MoreDirect achieving targeted levels of annual earnings before income taxes through December 31, 2004. We also escrowed $10.0 million in cash at closing to fund a portion of these contingent payments. Acquisition costs of $0.6 million have been included in the purchase price.

The transaction was accounted for by the purchase method, and accordingly, MoreDirect's results of operations are included in our consolidated financial statements only for periods after April 5, 2002.

Note 7--Acquisition of MoreDirect, Inc.--Cont'd.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the acquisition. The fair values of certain intangible assets were determined through a third party valuation. The current purchase price allocation is preliminary, and is subject to further adjustment and review.

At April 5, 2002 (amounts in thousands)	
Current assets	$29,675
Property, plant and equipment and other assets	197
Intangible assets	5,400
Goodwill	14,097
Total acquired	49,369
Current liabilities	26,669
Net assets acquired	22,700
Less cash acquired	115
Purchase price for acquisition, net of cash acquired	$22,585

Of the $5.4 million of acquired intangible assets, $1.2 million was assigned to registered trademarks that are not subject to amortization. The remaining $4.2 million of acquired intangible assets include software/technology of $1.4 million (5 year weighted-average useful life) and $2.8 million of customer relationships (8 year weighted average useful life).

The following unaudited pro forma information presents the results of our operations as if the acquisition of MoreDirect had taken place as of the beginning of the periods presented:

	Three Months Ended		Six Months Ended	
June 30, (amounts in thousands, except per share data)	2002	2001	2002	2001
Net revenue	$295,440	$354,960	$582,858	$707,905
Net income (loss)	424	3,098	(85)	6,573
Earnings per share:				
Basic	$ .02	$ .13	$ .00	$ .27
Diluted	$ .02	$ .12	$ .00	$ .26

Note 8--Future Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." It requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than at the date of a commitment to an exit or disposal plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with earlier application encouraged. The restructuring activities undertaken by us prior to the issuance of this statement have been appropriately accounted for under EITF 94-3. (See Note 6).

Item 2--MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are subject to risks and uncertainties, including, but not limited to, the impact of changes in market demand and the overall level of economic activity, or in the level of business investment in information technology products, competitive products and pricing, product availability and market acceptance, new products, fluctuations in operating results and other risks detailed under the caption, "Factors That May Affect Future Results and Financial Condition" set forth below. 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," "expect," 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. More specifically, the statements in this report concerning our outlook for the balance of 2002 and the statements concerning our gross margin percentage and selling and administrative costs and other statements of a non-historical basis (including statements regarding implementing strategies for future growth, our ability to regain our model of profitable growth and the expected benefits of our electronic commerce strategy) are forward-looking statements that involve certain risks and uncertainties. Such risks and uncertainties include the ability to realize market demand for and competitive pricing pressures on the products and services marketed by us, the continued acceptance of our distribution channel by vendors and customers, continuation of key vendor relationships and support programs and our ability to hire and retain qualified sales account managers and other essential personnel. Except as required by law, we undertake 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 we file from time to time with the SEC.

General

We were founded in 1982 as a mail-order business offering a broad range of software and accessories for IBM and IBM-compatible personal computers ("PCs"). 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 seek to 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 four years, from 19.4% of net sales for the year ended December 31, 1998 to 9.5% of net sales for the six months ended June 30, 2002. We believe that sales attributable to Mac products will continue to decrease as a percentage of net sales and may decline in absolute dollar volume in 2002 and future years.

The weakness in demand for information technology products experienced by us in 2001 continued through the second quarter of 2002 resulting in overall conservative buying patterns, order deferrals and longer sales cycles.

Critical Accounting Policies

In our December 31, 2001 Form 10-K, under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in the Notes to the Consolidated Financial Statements, we disclosed what we consider to be our critical accounting policies. We applied those same accounting policies in the preparation of the accompanying condensed consolidated financial statements, except for the adoption on January 1, 2002 of SFAS Nos. 141, 142 and 144 and the corresponding cessation of goodwill amortization.

Results of Operations

Three Months and Six Months Ended June 30, 2002 Compared with the Three Months and Six Months Ended June 30, 2001.

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

	Three Months Ended		Six Months Ended	
June 30,	2002	2001	2002	2001
Net sales (in millions)	$292.2	$297.3	$528.3	$599.1
Net sales	100.0%	100.0%	100.0%	100.0%
Gross profit	10.8	11.0	10.7	11.4
Selling, general and administrative expenses	10.5	10.3	11.0	10.2
Restructuring costs and other special charges	0.1	--	0.2	0.1
Income (loss) from operations	0.2	0.7	(0.5)	1.0

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

	Three Months Ended		Six Months Ended	
June 30,	2002	2001	2002	2001
Sales Channel				
Corporate Outbound	78%	79%	77%	78%
Inbound Telesales	8	12	10	13
On-Line Internet	14	9	13	9
Total	100%	100%	100%	100%
Product Mix				
Notebooks	15%	20%	15%	22%
Desktop/Servers	15	13	15	13
Storage Devices	10	10	10	10
Software	14	13	14	13
Networking Communications	8	9	9	9
Printers	9	9	9	8
Videos & Monitors	10	10	10	9
Memory	4	3	3	3
Accessories/Other	15	13	15	13
Total	100%	100%	100%	100%

For the three months ended June 30, 2002, sales of enterprise server and networking products (included in the above product mix) were 23.0% of net sales, compared to 18.6% of net sales for the comparable period in 2001.

Sales of enterprise server and networking products (included in the above product mix) were 22.1% and 19.0% of net sales for the six months ended June 30, 2002 and June 30, 2001, respectively.

Results of Operations--Cont'd.

Net sales decreased $5.1 million, or 1.7%, to $292.2 million for the quarter ended June 30, 2002 from $297.3 million for the comparable period in 2001 due to the continued weakness in demand for information technology products. Net sales for the six months ended June 30, 2002 decreased $70.8 million, or 11.8%, to $528.3 million from $599.1 million in the comparable period in 2001. Outbound channel sales decreased 3.1% to $226.8 million for the quarter ended June 30, 2002 over the comparable 2001 quarter, and decreased 13.1% to $406.1 million for the six months ended June 30, 2002 compared to the corresponding 2001 period. On-line Internet sales increased 64.4% to $42.9 million for the quarter ended June 30, 2002 and increased 30.7% to $71.2 million for the six months ended June 30, 2002 compared to corresponding periods in 2001. Excluding on-line Internet sales for MoreDirect, our newly acquired subsidiary, on-line Internet sales increased 4.0% to $27.1 million for the quarter ended June 30, 2002 and increased 1.8% to $55.5 million for the six months ended June 30, 2002 compared to the corresponding prior year periods. Inbound channel sales, which primarily serve our consumer and very small business customers, decreased 39.5%, to $22.5 million for the quarter ended June 30, 2002, and decreased 34.0%, to $51.0 million for the six months ended June 30, 2002, compared to corresponding periods in 2001.

Excluding net sales for MoreDirect, second quarter 2002 net sales were $238.3 million, virtually flat compared to first quarter of 2002. Net sales for MoreDirect, which comprises our Large Corporate Accounts segment, were $53.8 million for the quarter. Net sales for the small- and medium-sized business (SMB) segment, were down sequentially by 6% to $173.9 million in the second quarter of 2002. Net sales to the federal, state and local government organizations and educational institutions (Public Sector) grew 27% sequentially to $64.5 million during the second quarter of 2002.

Net sales of enterprise server and networking products increased 21.3% to $67.1 million for the quarter ended June 30, 2002 from $55.3 million for the comparable period in 2001. Management believes that these product categories will eventually grow substantially as our customers further upgrade their network and communication infrastructure. If economic conditions do not improve in the near term, the anticipated sales growth of these types of products will not likely occur. Enterprise server and networking products represented 23.0% of overall net sales for the second quarter in 2002, up from 18.6% of net sales for the comparable period in 2001. Sales of notebooks declined by 24.8% to $44.2 million for the quarter ended June 30, 2002, from $58.8 million for the comparable period in 2001. Desktop/server sales increased by 20.2% to $45.3 million for the quarter ended June 30, 2002, from $37.7 million for the comparable period in 2001. The shift in product mix resulted primarily from the acquisition of MoreDirect whose computer systems sales are concentrated more in the desktop/server category.

Average order size increased $7, or 0.6%, to $1,127 for the quarter ended June 30, 2002 compared to the second quarter of 2001. Average order size increased sequentially by 26.1% in the second quarter partly due to the MoreDirect acquisition. The total number of orders received for the quarter declined by 3.4% from the first quarter of 2002, and by 3.8% year-over-year, compared to the 1.7% year-over-year decline in total net sales dollars. Average annualized sales productivity per account manager for the quarter improved sequentially to $2.0 million from $1.8 million in the first quarter of 2002.

Gross profit decreased $1.4 million, or 4.3%, to $31.5 million for the quarter ended June 30, 2002 from $32.9 million for the comparable period in 2001, primarily due to the decrease in sales described above. Gross profit for the six months ended June 30, 2002 decreased $11.8 million, or 17.3%, to $56.4 million from $68.2 million for the comparable period in 2001. Gross profit margin as a percentage of sales decreased to 10.8% of net sales in the second quarter of 2002 from 11.0% for the comparable period in 2001. Gross profit margin as a percentage of sales decreased to 10.7% in the first six months of 2002 from 11.4% for the comparable period in

Results of Operations--Cont'd.

2001 but increased from 10.6% in the first quarter of 2002. Excluding MoreDirect's results for the second quarter, our gross profit margins were 10.9%. MoreDirect's gross profit margin was 10.4%. Gross profit margins in our small- and medium-sized business segment improved by 0.6% sequentially over the quarter ended March 31, 2002 to 11.6% in the quarter ended June 30, 2002, primarily due to the improved attainment of vendor incentive rebates.

A more competitive pricing environment and lower overall demand during the first six months of 2002 negatively impacted our year-over-year gross margin percentages. Our profit margins are also influenced by the relative mix of sales to commercial, government, education and consumer customers and by the relative mix of inbound, outbound and on-line Internet sales. Since outbound sales are typically to corporate and government accounts that purchase at volume discounts, the gross margin percentage of such sales is generally lower than inbound sales. However, the gross profit dollar contribution per outbound sales order is generally higher as average order sizes are usually larger. We expect that our gross margin, as a percentage of sales, may vary by quarter based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

Selling, general and administrative expenses remained flat at $30.7 million for the quarter ended June 30, 2002 as compared to the second quarter in 2001 but increased sequentially by $3.2 million over the quarter ended March 31, 2002. For the six months ended June 30, 2002, selling, general and administrative expenses (SG&A) decreased $3.0 million, or 4.9%, to $58.1 million from $61.1 million for the comparable period in 2001. SG&A as a percentage of net sales were 10.5% in the second quarter of 2002, compared to 10.3% in the comparable period a year ago and 11.6% in the first quarter of 2002. For the six months ended June 30, 2002, SG&A as a percentage of net sales increased to 11.0% compared to 10.2% for the comparable period in 2001. Increases related to our Web site initiatives were offset by decreases in volume sensitive costs, such as variable compensation and credit card fees. We expect that our 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 our new Internet Web technology to support the sales organization. SG&A in each of the first quarter and second quarter of 2001 included goodwill amortization of $176 thousand. There were no such charges in the corresponding 2002 quarters. Had the $176 thousand not been amortized in each of the first two quarters of 2001, earnings per share would not have been significantly affected.

Restructuring costs and other special charges totaling $0.10 million were recorded in the second quarter of 2002. These charges were related to workforce reductions. No restructuring costs or other special charges were recorded in the comparable period in 2001. For the six-month periods ended June 30, 2002 and 2001, we recorded $0.92 million and $.85 million, respectively, in restructuring costs and other special charges. On March 15, 2002, we announced that we had settled litigation commenced by Microsoft Corporation involving alleged trademark and copyright infringement. While denying these allegations, we recorded $0.75 million in settlement costs and legal fees related to this matter. We also took a $0.17 million charge and a $0.85 million charge related to staff reductions for the six months ended June 30, 2002 and 2001, respectively.

Results of Operations--Cont'd.

A rollforward of restructuring costs and other special charges for the six months ended June 30, 2002, is shown below:

(amounts in thousands)	Beginning Balance	Total Charges	Cash Payments	Liabilities at June 30, 2002
Settlement of Microsoft litigation charges	$ --	$750	$ (716)	$ 34
Workforce reduction......................	425	168	(527)	66
Total....................................	$425	$918	$(1,243)	$100

Income (loss) from operations decreased $1.5 million, or 68.2%, to $0.7 million for the quarter ended June 30, 2002, from $2.2 million for the comparable period in 2001. Income from operations decreased $8.8 million, or 141.9%, to a loss of $2.6 million for the six months ended June 30, 2002, compared to income of $6.2 million for the comparable period in 2001. Income from operations as a percentage of sales decreased from 0.7% in the three months ended June 30, 2001 to 0.2% for the comparable period in 2002 for the reasons discussed above. Income from operations as a percentage of sales decreased from 1.0% in the six months ended June 30, 2001 to a loss of 0.5% for the comparable period in 2002.

Income from operations for the quarter ended June 30, 2002, excluding the acquisition of MoreDirect, Inc. was a loss of $1.7 million. Our Public Sector Segment (as described in Note 4 to our Condensed Consolidated Financial Statements), incurred a loss of $1.5 million, and our SMB segment incurred a loss of $0.2 million.

Interest expense remained flat at $0.3 million for the quarters ended June 30, 2002 and 2001. For the six months ended June 30, 2002, interest expense decreased $0.2 million, or 28.6% to $0.5 million from $0.7 million for the comparable period in 2001. This decrease in interest expense was attributed to lower average borrowings in the first quarter in 2002 as compared to the first quarter of 2001.

Other, net which is essentially comprised of interest income decreased $0.3 million, or 75.0%, to $0.1 million in the quarter ended June 30, 2002 from $0.4 million for the comparable period in 2001 due to lower interest rates and lower investment levels. For the six months ended June 30, 2002, other, net decreased $0.4 million, or 57.1%, to $0.3 million from $0.7 million for the comparable period in 2001.

Income taxes for the quarter ended June 30, 2002 consisted of a $0.2 million tax provision compared to a $0.9 million tax provision for the comparable quarter in 2001. The effective tax rate was 38.5% for the period ended June 30, 2002 and 38.0% for the period ended June 30, 2001. For the six months ended June 30, 2002, the provision for income taxes decreased $3.5 million, or 145.8%, to a credit of $1.1 million from a provision of $2.4 million for the six months ended June 30, 2001.

Net income (loss) for the quarter ended June 30, 2002 decreased $1.1 million, or 78.6%, to $0.3 million from net income of $1.4 million for the comparable quarter in 2001, as a result of the decrease in income from operations. For the six months ended June 30, 2002, net income decreased $5.7 million, or 146.2%, to a loss of $1.8 million from income of $3.9 million for the six months ended June 30, 2001.

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

Liquidity and Capital Resources--Cont'd.

bank line of credit, will be sufficient to finance our working capital and capital expenditure requirements at least through the next twelve months. Our ability to continue funding our planned growth 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 reduced.

At June 30, 2002, we had cash and cash equivalents of $26.2 million and working capital of $89.9 million. At December 31, 2001, we had cash and cash equivalents of $35.6 million and working capital of $120.9 million.

In May 2002, we entered into a $45 million credit facility secured by substantially all of our business assets. In July 2002, an additional lender committed to fund $10.0 million of this facility. Amounts outstanding under this facility bear interest at the prime rate (4.75% at June 30, 2002). The credit facility includes various customary financial and operating covenants, minimum net worth and maximum funded debt ratio requirements, including restrictions on the payment of dividends, none of which we believe significantly restricts our operations. No borrowings were outstanding under this credit facility at June 30, 2002. The credit facility matures on June 30, 2004. Amounts outstanding under our former facility, which terminated in May 2002, did not exceed $6.3 million for the year ended December 31, 2001.

Net cash provided by operating activities was $27.1 million for the six months ended June 30, 2002, as compared to $39.5 million provided by operating activities in the comparable period in 2001. The primary factors historically affecting cash flows from operations are our net income and changes in the levels of accounts receivable, inventories and accounts payable.

At June 30, 2002, we had $121.9 million in outstanding net accounts receivable. During the second quarter of 2002, days sales outstanding improved sequentially by 6 days to 52 days at June 30, 2002 from 58 days at March 31, 2002.

Inventories totaled $34.5 million at June 30, 2002, compared to $37.0 million at March 31, 2002 and $48.0 million at December 31, 2001. Net sales of products drop-shipped by distributors and other vendors directly to customers accounted for 34% of net sales in the second quarter (19% excluding MoreDirect) compared to 18% in the first quarter of 2002. Inventory turns improved to 27 turns, partly due to the MoreDirect acquisition, compared to 19 turns in the first quarter of 2002 and 19 turns in the second quarter of 2001.

At June 30, 2002, we had $89.4 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, if necessary, short-term borrowings under the line of credit. This amount includes $9.8 million payable to two financial institutions under security agreements to facilitate the purchase of inventory.

Capital expenditures were $3.4 million in the six months ended June 30, 2002 as compared to $4.2 million in the comparable period in 2001. The majority of the capital expenditures for the respective 2002 and 2001 periods relate to computer hardware and software purchases for our information systems. Total capital expenditures for the year ending December 31, 2002 are estimated to be $6.8 million.

We have disclosed significant related party transactions and our future commitments in our Form 10-K. There have been no substantial changes in those disclosures since year-end.

Future Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." It requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than at the date of a commitment to an exit or disposal plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with earlier application encouraged. The restructuring activities undertaken by us prior to the issuance of this statement have been appropriately accounted for under EITF 94-3. (See Note 6).

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.

There has been a general decline in the economy over the past year and the demand for personal computer products has decreased throughout the industry. This decrease adversely affected our sales and results of operations in 2001, and continues to adversely affect our sales and results of operations in 2002. 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 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. Net sales for the six months ended June 30, 2002 declined by 11.8% from the comparable 2001 period, despite our acquisition of MoreDirect. 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.

Factors That May Affect Future Results and Financial Condition--Cont'd.

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 may in the future 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

Factors That May Affect Future Results and Financial Condition--Cont'd.

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 66.4% and 64.1% of our total product purchases in the six-month periods ended June 30, 2002 and 2001, respectively. Among these five vendors, purchases from Ingram Micro, Inc. represented 27.9% and 25.0% of our total product purchases and purchases from Tech Data Corporation comprised 15.2% and 16.4% of our total product purchases in the six-month periods ended June 30, 2002 and 2001, respectively. Effective May 3, 2002, Compaq Computer Corporation became a wholly-owned subsidiary of Hewlett Packard Company. Had this merger been completed at the beginning of the periods presented, our purchases made directly from Hewlett Packard, on a pro forma basis, would have constituted 13.8% and 10.4% of our total product purchases in the six-month periods ended June 30, 2002 and 2001, respectively. No other vendor supplied more than 10% of our total product purchases in the six-month periods ended June 30, 2002 and 2001. If we were unable to acquire products from Ingram Micro, Tech Data or Hewlett Packard, 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 June 30, 2002 was $89.4 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

Factors That May Affect Future Results and Financial Condition--Cont'd.

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

Factors That May Affect Future Results and Financial Condition--Cont'd.

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.

Factors That May Affect Future Results and Financial Condition--Cont'd.

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

In 2001, we shipped 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.

Sales taxes are presently collected on sales of products by several of our sales subsidiaries in as many as 25 states and the District of Columbia. 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

Factors That May Affect Future Results and Financial Condition--Cont'd.

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 3--QUANTITATIVE AND QUALITATIVE DISCLOSURES 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 secured credit agreement provides for borrowings which bear interest based on the prime rate. We had no borrowings outstanding pursuant to our credit agreement as of June 30, 2002. 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.

Part II--Other Information

Item 1--Legal Proceedings

Not applicable.

Item 2--Changes in Securities and Use of Proceeds

Not applicable.

Item 3--Defaults Upon Senior Securities

Not applicable.

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

At the 2002 Annual Meeting of Stockholders of the Company (the "Annual Meeting") on June 18, 2002, the following matters were acted upon by the stockholders of the Company:

1. the election of six Directors;

2. the approval to amend the Company's Employee Stock Purchase Plan to increase the number of shares of Common Stock that may be issued thereunder from 337,500 shares to 537,500 shares;

3. the ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors for the current fiscal year.

The number of shares of Common Stock issued, outstanding and eligible to vote as of the record date of May 15, 2002 was 24,559,895. The results of the voting on each of the matters presented to stockholders at the Annual Meeting are set forth below:

	VOTES FOR	VOTES AGAINST	VOTES ABSTAINED	UNVOTED
1. Election of Directors:				
Bruce Barone	23,141,353	22,972	N.A.	N.A.
Joseph Baute	23,141,353	22,972	N.A.	N.A.
Peter Baxter	23,141,353	22,972	N.A.	N.A.
David Beffa-Negrini	23,029,853	134,472	N.A.	N.A.
Patricia Gallup	23,056,153	108,172	N.A.	N.A.
David Hall	23,056,153	108,172	N.A.	N.A.
2. Amendment to the Company's Employee Stock Purchase Plan	23,086,872	68,187	9,266	N.A.
3. Ratification of the Appointment of Auditors	22,925,121	235,517	3,687	N.A.

Item 5--Other Information

Not applicable.

Item 6--Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
15	Letter on unaudited interim financial information.
99.1	Certification of the Company's Chief Executive Officer and Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

(I) The Company filed a Current Report on Form 8-K on April 11, 2002 regarding the execution of the Merger Agreement by and between PC Connection, Inc., MoreDirect, Inc. and the sole stockholder of MoreDirect, Inc., dated as of April 5, 2002.

(II) The Company filed a Current Report on Form 8-K on May 9, 2002, reporting pro forma information that was released at R. W. Baird's Conference in Chicago, IL on May 10, 2002.

(III) The Company filed a Current Report on Form 8-K on June 5, 2002, regarding the execution of an Amended and Restated Credit Facility by and between the Company and Citizens Bank of Massachusetts, as agent.

(IV) The Company filed a Current Report on Form 8-K/A Amendment No. 1 on June 18, 2002, to the Form 8-K filed on April 11, 2002 reporting the required financial statements relating to MoreDirect, Inc.

PC CONNECTION, INC. AND SUBSIDIARIES
June 30, 2002

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PC CONNECTION, INC. AND SUBSIDIARIES

August 14, 2002

By: /s/ WAYNE WILSON

Wayne Wilson
President and Chief Operating Officer

August 14, 2002

By: /s/ MARK GAVIN

Mark Gavin
Senior Vice President of Finance and Chief Financial Officer

Exhibit 15

July 17, 2002

PC Connection, Inc.
730 Milford Road
Merrimack, New Hampshire

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of PC Connection, Inc. and subsidiaries for the periods ended June 30, 2002 and 2001, as indicated in our report dated July 17, 2002; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, is incorporated by reference in Registration Statement Nos. 333-40172, 333-50845, 333-50847, 333-66450, 333-69981, 333-83943, and 333-91584 on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Deloitte & Touche LLP

Boston, Massachusetts

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Kenneth Koppel, Chief Executive Officer of the Company, and Mark Gavin, Senior Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2002

/s/ KENNETH KOPPEL

Kenneth Koppel
Chief Executive Officer

Dated: August 14, 2002

/s/ MARK GAVIN

Mark Gavin
Senior Vice President and Chief
Financial Officer