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

Form 10-K/A
Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 1999

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

02-0497006

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

Rt. 101A, 730 Milford Road
Merrimack, New Hampshire

03054

(Address of principal executive offices)

(Zip Code)

(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 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 27,
2000, was \$96,008,036. 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 27,
2000 was 15,794,298.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2000 Annual Meeting of
Shareholders for the fiscal year ended December 31, 1999, 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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This Amendment No. 1 to the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2000, includes the text portion of the Form 10-K (Items 1 through 14), which was inadvertently omitted from the March 30, 2000 filing during its electronic transmission to the Securities and Exchange Commission. This Amendment includes the Company's consolidated financial statements, previously filed, as well as the text inadvertently omitted from the initial filing.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

PC Connection, Inc.

Date: April 4, 2000

By: /s/ Patricia Gallup

Patricia Gallup, Chairman
and CEO

PC CONNECTION, INC.
FORM 10-K ANNUAL REPORT
YEAR ENDED DECEMBER 31, 1999

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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 Conditions 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 economic risks. 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

PC Connection, Inc. and its subsidiaries (together, referred to below as "PC Connection", or "the Company") is a direct marketer of brand-name personal computers and related peripherals, software, accessories and networking products - - principally to small and medium-sized businesses, which are referred to as SMBs, comprised of 20 to 1,000 employees. The Company sells its products through a combination of targeted direct mail catalogs, outbound telemarketing, its Internet Web site and advertisements on the Internet and in selected computer magazines. The Company offers 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, Canon, Iomega and Apple. Net sales of Microsoft Windows or MS-DOS based personal computers, or PCs, and compatible products were approximately 85% of net sales in 1999. The Company's most frequently ordered products are carried in inventory and are typically shipped to customers the same day that the order is received.

Since its founding in 1982, the Company has served its customers' needs by providing innovative, reliable and timely service and technical support, and offering an extensive assortment of branded products, through knowledgeable, well-trained sales and support teams. The effectiveness of this strategy is reflected in the recognition the Company has received, including the PC World "World Class Award for Best Mail-Order Company" in 1998 and 1997, as voted by its readers, for the eighth time in the past ten years, including a 1999 award for "Best Online/Mail Order Catalog Company", and the highest ranking of only two direct resellers included in the "100 Most Influential Companies in the Computer Industry" by PC Magazine in 1998 and 1997, and the only direct reseller included in the "100 Most Influential Companies in the Computer Industry" by PC Magazine in 1999. In 1999, PC Connection was listed as one of the top "100 Hottest Companies on the Internet" by Business 2.0 Magazine.

The Company believes that its consistent customer focus has also resulted in the development of strong brand name recognition and a broad and loyal customer base. At December 31, 1999, the Company's mailing list consisted of approximately 2,800,000 customers and potential customers, of which approximately 732,000 had purchased products from the Company within the last twelve months. Approximately 68% of its net sales in the year ended December 31, 1999 were made to customers who had previously purchased products from the Company. Management believes that the Company also has strong relationships with vendors, resulting in favorable product allocations and marketing assistance.

The Company's fastest growing customer segments include: early stage Internet or Web-based businesses, mainstream businesses which are now investing aggressively in Web-based marketing programs to more effectively compete with the so-called "dot com" companies, and other high growth organizations which are increasingly dependent on distributed data and communication networks. Management believes that the Company's pioneering Everything Overnight(R) program has set it apart as the premier rapid response supplier of information technology products and solutions to the middle market.

Network infrastructure products, such as PC servers, routers and switches, were among the Company's fastest growing product categories in 1999, increasing by more than 150% in the fourth quarter of 1999 compared to the fourth quarter of 1998. Over the next few years, the Company anticipates that an increasing share of its revenues will come from the sale of network infrastructure products and services, including network-based storage solutions, versus the current sales concentration in desktop and portable computers.

During 1999, the Company invested heavily in training, technical certification and other programs to support the rapidly growing demand from its customers for networking and related products. During the fourth quarter of 1999, the Company began offering its customers network integration and installation services through third-party providers. The Company also launched its proprietary Networking Sales Specialist program in January 2000.

Beginning in late 1995, the Company significantly increased its business-to-business marketing efforts, targeting SMBs, a rapidly growing sector of the personal computer market that the Company believes is particularly receptive to purchases from direct marketers. In order to service this growing part of its business more effectively, the Company increased the number of its outbound telemarketing account managers from 200 at December 31, 1998 to 345 at December 31, 1999. This growth includes 143 new account managers with less than 12 months of outbound telemarketing experience with the Company.

The Company's two major catalogs are 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, and toll-free telephone numbers for ordering, the Company's catalogs are recognized as a leading source for personal computer hardware, software and other related products. The Company distributed approximately 47 million catalogs during the year ended December 31, 1999.

The Company also markets its products and services through its Internet Web sites, www.pcconnection.com and www.macconnection.com. The Company's 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 1999 were \$18.9 million, or 6% of that quarter's net sales, representing a 27.4% sequential increase over the third quarter of 1999. Online sales in the fourth quarter of 1999 increased 78% over the comparable quarter in 1998. For the full year 1999, these sales were \$58.1 million, or 5.5% of net sales, compared to 4.0% in 1998. These results represent a 99% increase in annual Internet sales over 1998.

The Company believes that the reason its e-commerce business is growing so rapidly is that it offers customers the advanced tools they need to quickly make educated purchase decisions. Working closely with vendors, the Company believes that it is able to provide one of the broadest, leading-edge technology selections in the industry. By using its merchandising expertise, catalog mailings and established infrastructure, the Company has built a profitable Internet business and one that complements all its other sales channels.

For the Company the Web fundamentally supports three key business initiatives:

- o Customer choice - The Company has built its business on the premise that its customers should be able to choose how they interact with the Company, be it by mail, telephone, fax, e-mail or over the Web.
- o Lowering transactions costs - The Company's 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, the Company's 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.
- o Leveraging the time of experienced Account Managers - The Company's investments in technology-based sales and service programs demonstrate the power of technology at its best - leveraging its Account Managers to do what they do best: building and maintaining relationships with our customers and helping them to solve their business problems.

FORMATION OF THE HOLDING COMPANY

On January 1, 2000, the Company announced a new holding company structure to support PC Connection's future growth and plans to expand its current business lines through internal growth and potential acquisitions.

Outstanding shares of common stock representing interests in PC Connection prior to the holding company formation were converted into shares of the new holding company on a one-for-one basis through a non-taxable transaction. Common stock shares of the new holding company trade on the Nasdaq National Market under the symbol, "PCCC", the same exchange and symbol used by the predecessor company. The new shares hold the same voting power that shares of the predecessor held. No additional capital stock was issued as part of the transaction. The directors and officers of the predecessor company serve as the directors and officers of the new holding company.

INDUSTRY BACKGROUND

International Data Corporation (IDC) reported that the 1999 worldwide PC market grew 23.3% and U.S. volume increased 25% over 1998. In addition to PC demand, overall Information Technology (IT) spending is expected to grow by as much as 20% in 2000. The continued strength in the economy has provided a solid foundation for continued expansion and upgrading of IT systems. Computer Reseller News (CRN) projects small businesses will increase IT spending by 15 - 20% in 2000 as they race to implement e-commerce solutions. Midsize companies boosted IT spending by 8% in 1999 and CRN expects spending growth of 12% in 2000.

The Company believes that sales of personal computers and related products have increased principally as a result of:

- o technological advances leading to significant improvements in performance, functionality and ease of use;
- o lower prices and improved price/performance driven by intense competition among manufacturers, retailers and resellers;
- o increased dependence upon PCs by businesses, educational institutions and governments;
- o the emergence of industry standards and component commonality;
- o upgrade of e-commerce capabilities; and
- o presence of year 2000 concerns.

The Company believes that the direct marketing channel will continue to grow faster than the overall industry due primarily to increased user familiarity with PCs, coupled with the emergence of industry standards and component commonality, 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, the Company's core target customers, are being served by a wide range of suppliers, including direct marketers, large retailers, small, independent, value-added resellers ("VARs"), and local dealerships. The Company believes 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 that 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 the Company's knowledge, only one has replaced its traditional indirect selling channels as the principal means of distribution. Accordingly, the Company believes these

manufacturers will continue to provide the Company and other third-party direct marketers favorable product allocations and marketing support.

The Company believes new entrants to the direct marketing channel must overcome a number of obstacles, including:

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

BUSINESS STRATEGIES

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

- o The Company provides award-winning customer service before, during and after the sale. The Company believes that it has earned a reputation for providing superior customer service by consistently focusing on its customer needs. The Company has won PC World's "World Class Award for Best Mail Order Company" in eight out of the last ten years, including a 1999 award for "Best Online/Mail Order Catalog Company". The Company delivers value to its customers through high quality service and technical support provided by its knowledgeable, well-trained personnel. The Company has efficient and innovative delivery programs. It also offers its customers competitive prices and reasonable return policies.
- o The Company maintains a strong brand name and customer awareness. Since its founding in 1982, the Company has built a strong brand name and customer awareness. In July 1999, the Company was the only direct reseller included in the "100 Most Influential Companies in the Computer Industry" by PC Magazine. In 1998 and 1997, the Company was one of only two direct resellers included in the listing. The Company's mailing list includes approximately 2,800,000 names, of which approximately 732,000 have purchased products from the Company during the last 12 months. In 1999, PC Connection ranked among the "Top 100 Hottest Companies on the Internet" by Business 2.0 Magazine.
- o The Company offers a broad product selection at competitive prices. The Company offers its customers a wide assortment of personal computers and related products at competitive prices. The Company's 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.
- o The Company has long-standing vendor relationships. The Company has a history of strong relationships with vendors, and it was among the first direct marketers qualified by manufacturers to market systems to end-users. The Company provides its vendors with both information concerning customer preferences and an efficient channel for the advertising and distribution of their products.

GROWTH STRATEGIES

The Company's growth strategies are to expand and increase penetration of its existing customer base and to broaden its product offerings. The key elements of the Company's growth strategies include the following:

- o Increase outbound telemarketing. The Company plans to continue to increase the number of corporate outbound account managers and assign them to a greater number of 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.

- o Expand product offerings. The Company continually evaluates information technology products focused on business users, adding new products as they become available or in response to customer demand. The Company works closely with vendors to identify and source first-to-market product offerings at aggressive prices and believes that the expansion of its corporate outbound marketing program will enhance its access to such product offerings.
- o Target specific customer populations. Through targeted mailings, the Company seeks to expand the number of active customers and generate additional sales from its existing customers. The Company has 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.
- o Expand electronic commerce channel. The Company's Internet Web-based catalog provides detailed product descriptions, product search capabilities and on-line order processing. The Company has seen a rapid increase in on-line sales and believes that an increasing number of customers and potential new customers will shop electronically in the future. Therefore, the Company plans to further improve on-line sales capabilities, customer service and product information and customer support available on its Internet Web site.
- o Pursue strategic acquisitions and alliances. The Company completed its first acquisition in June 1999 of ComTeq Federal, Inc. ("ComTeq"). ComTeq, based in Rockville, Maryland, is a specialty reseller focused on agencies of the federal government. Through its acquisition program, the Company seeks to acquire new customers, strengthen its product offerings, add management talent and produce operating results which are accretive to its core business earnings.

SERVICE AND SUPPORT

Since the Company's founding in 1982, its 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. The Company believes that offering its customers superior value, through a combination of product knowledge, consistent and reliable service and leading products at competitive prices, differentiates it from other direct marketers and establishes the foundation for developing a broad and loyal customer base. The Company has introduced programs such as Toll-Free Technical Support in 1982, the Everything Overnight(R) delivery program in 1988, Money Back Guarantees in 1989, One-Minute Mail Order(R) in 1991, On-line Superstore in 1997, and Your Brands, Your Way, Next Day(R) in 1998.

The Company invests in training programs for its 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, general inquiries and technical support questions.

The Company provides 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 the Company for warranty service. In-house technicians perform both warranty and non-warranty repair on most major systems and hardware products.

Using its customized information system, the Company sends its customer orders to its distribution center for processing immediately after a customer receives credit approval. Through its Everything Overnight(R) service, it guarantees that all orders for in-stock merchandise accepted up until 2:00 a.m. (until midnight on most custom-configured systems) can be shipped for overnight delivery via Airborne Express. The Company also configures approximately 20% of the computer systems it sells. Configuration typically consists of the installation of memory, accessories and/or software.

MARKETING AND SALES

The Company sells its products through its direct marketing channel, primarily to SMBs. The Company seeks to be the primary supplier of personal computers and related products to its existing customers and to expand its customer base. The Company uses multiple marketing approaches to reach existing and prospective customers, including:

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

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

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

The following table sets forth the Company's percentage of net sales by sales channel:

| Sales Channel | Year Ended December 31, | | |
|--------------------|-------------------------|-------------|-------------|
| | 1999 | 1998 | 1997 |
| Corporate Outbound | 66% | 53% | 47% |
| Inbound Telesales | 29 | 43 | 52 |
| On-Line Internet | 5 | 4 | 1 |
| Total | 100% | 100% | 100% |

Outbound Telemarketing. The Company seeks to build loyal relationships with its potential high-volume customers by assigning them to individual account managers. The Company believes 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, 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. The Company generally recruits account managers from other sales organizations and from its inbound telemarketing staff. All account managers must successfully complete a one-month training program, which includes instruction in the Company's 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 the Company's vendors. The Company pays its account managers a base annual salary plus incentive compensation. Incentive compensation is tied to sales volume and gross profit dollar goals by the individual account manager. Account managers historically have significantly increased productivity after approximately 12 months of training and experience. At December 31, 1999, the Company employed 345 account managers, including 143 with less than 12 months of outbound telemarketing experience with the Company.

Catalogs and Inbound Telesales. The Company's two principal catalogs are PC Connection(R) for the PC market and MacConnection(R) for the Mac market. The Company publishes twelve editions of each of these catalogs annually. The Company distributes catalogs to purchasers on its in-house mailing list as well as to other prospective customers. The Company sends its two principal catalogs to its 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. The Company also includes a catalog with each order shipped.

In addition, the Company mails specialty catalogs or customized versions of its catalogs to selected customers. The Company distributes specialty catalogs to educational and governmental customers and prospects on a periodic basis. The Company also distributes its 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 the Company's 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 the Company's 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 the Company. After completion of the design and preparation, the Company outsources the catalogs to commercial printers for printing.

The Company's inbound sales representatives answer customer telephone calls generated by its 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. The Company provides training to its inbound telemarketing personnel and provides incentive compensation based upon sales productivity. The Company has a flexible staffing model which allows it to maintain excellent customer service during periods of peak demand while maintaining an efficient cost structure. The Company regularly monitors calls for quality assurance purposes and has been a pioneer in using caller identification for the instant retrieval of customer records. Using 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 its toll-free numbers, orders are also received via fax, mail and electronic mail.

Advertising. The Company has 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 the Company's service and support features. Additionally, the PC Connection(R) logo and telephone numbers are included in promotions by selected manufacturers.

www.pconnection.com. In November 1996, the Company launched an Internet Web site, which includes a complete product catalog. In July 1997, the Company began accepting electronic orders through its Internet Web site. The Company also provides updated information for over 16,000 items and on screen images available for over 7,000 items. The Company offers, and continuously updates, selected product offerings and other special buys. The Company believes that in the future its Internet Web site will be an important sales source and communication tool for improving customer service.

Specialty Marketing. The Company's 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. The Company also marketed call-answering and fulfillment services to certain of its product vendors.

Customers. The Company currently maintains an extensive database of customers and prospects aggregating approximately 2,800,000 names. During the year ended December 31, 1999, the Company received orders from approximately 732,000 customers. Approximately 68% of its net sales in the year ended December 31, 1999 were made to customers who had previously purchased products from the Company.

PRODUCTS AND MERCHANDISING

The Company continuously focuses on expanding the breadth of its product offerings. The Company currently offers approximately 100,000 personal computer products designed for business applications from over 1,000 manufacturers, including hardware and peripherals, accessories, networking products and software. The Company offers both PCs and Macs and related products. In 1999, sales of PCs and related products were approximately 85% of its net sales. The Company selects the products that it sells based upon their technology and effectiveness, market demand, product features, quality, price, margins and warranties. As part of its merchandising strategy, the Company also offers new types of products related to PCs, such as digital cameras.

Computer systems/memory is the fastest growing product category, representing 47.6% of net sales in the year ended December 31, 1999, up from 43.7% and 42.2% of net sales in the years ended December 31, 1998 and 1997, respectively. The growth in system sales has been driven primarily by increased outbound sales efforts to business customers and the aggressive sourcing and merchandising of new computer systems lines and products.

The following table sets forth the Company's percentage of net sales (in dollars) of computer systems/memory, peripherals, software, and networking and communications products during the years ended December 31, 1999, 1998 and 1997.

| PERCENTAGE OF NET SALES | | | |
|------------------------------------|--------|--------|--------|
| ----- | | | |
| Year Ended December 31, | | | |
| ----- | | | |
| | 1999 | 1998 | 1997 |
| | ---- | ---- | ---- |
| Computer Systems/Memory..... | 47.6% | 43.7% | 42.2% |
| Peripherals..... | 33.7 | 34.5 | 34.3 |
| Software..... | 12.3 | 14.0 | 15.8 |
| Networking and Communications..... | 6.4 | 7.8 | 7.7 |
| | ----- | ----- | ----- |
| TOTAL..... | 100.0% | 100.0% | 100.0% |
| | ===== | ===== | ===== |

The Company offers a limited 30-day money back guarantee for most unopened products and selected opened products, although selected products are subject to restocking fees. Substantially all of the products marketed by the Company are warranted by the manufacturer. The Company generally accepts returns directly from the customer and then either credits the customer's account or ships the customer a similar product from its inventory.

PURCHASING AND VENDOR RELATIONS

For the year ended December 31, 1999, the Company purchased approximately 54% of its products directly from manufacturers and the balance from distributors and aggregators. The majority of products are shipped directly to the Company's distribution facility in Wilmington, Ohio. During the years ended December 31, 1999 and 1998, product purchases from Ingram Micro, the Company's largest vendor, accounted for approximately 22% and 20%, respectively, of its total product purchases. No other vendor accounted for more than 10% of the Company's total product purchases. The Company believes that alternative sources for products obtained from Ingram Micro are available.

Many product suppliers reimburse the Company for advertisements or other cooperative marketing programs in the Company's 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. The Company also receives reimbursements from certain vendors based upon the volume of purchases or sales of the vendors' products. Historically, the Company received price consideration and support including price protection and rebates from its vendors on a majority of the products it sold.

Price protection takes the form of rebates or credits against future purchases. The Company may participate in end-of-life-cycle and other special purchases which may not be eligible for price protection.

The Company believes that it has excellent relationships with vendors. The Company generally pays vendors within stated terms and takes advantage of all appropriate discounts. The Company believes that because of its volume purchases it is 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 its business, the Company believes that competitive sources of supply are available in substantially all of the merchandise categories offered.

DISTRIBUTION

At the Company's approximately 205,000 square foot distribution and fulfillment complex in Wilmington, Ohio, the Company receives and ships inventory, configures computer systems and processes returned products. Orders are transmitted electronically from the Company's New Hampshire sales facilities to the Wilmington distribution center after credit approval, where packing documentation is printed automatically and order fulfillment takes place. Through its Everything Overnight(R) service, the Company guarantees that all orders for in-stock merchandise accepted up until 2:00 a.m. (until midnight on custom-configured systems) can be shipped for overnight delivery via Airborne Express. The Company ships approximately 65% of its orders through Airborne Express. Upon request, orders may also be shipped by other common carriers.

ComTek Federal places product orders directly with manufacturers and/or distribution companies for drop shipment by those manufacturers and/or suppliers directly to ComTek's 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.

MANAGEMENT INFORMATION SYSTEMS

The Company uses management information systems, principally comprised of applications software running on IBM AS/400 and RS6000 computers and Microsoft NT-based servers, which the Company has customized for its 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. The Company also operates advanced telecommunications equipment to support its sales and customer service operations. Key elements of the Company's telecommunications systems are integrated with the Company's computer systems to provide timely customer information to sales and service representatives, and to facilitate the preparation of operating and performance data. The Company believes that its customized information systems enable it to improve productivity, ship customer orders on a same-day basis, respond quickly to changes in the Company's industry and provide high levels of customer service.

The Company's success is dependent in large part on the accuracy and proper use of its information systems, including its telephone systems, to manage its inventory and accounts receivable collections, to purchase, sell and ship the Company's products efficiently and on a timely basis, and to maintain cost-efficient operations. The Company expects to continually upgrade its information systems to more effectively manage its operations and customer database. In 1998, the Company replaced its order management and fulfillment software with new software and converted its principal computer equipment to new IBM AS400 platform systems, both of which are better suited to its expected scale of operations and were designed to be Year 2000 compliant.

COMPETITION

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

- o certain product manufacturers that sell directly to customers, such as Dell Computer Corporation and Gateway, Inc. and, more recently, Compaq, IBM and Apple;
- o distributors that sell directly to certain customers, such as MicroAge, Inc.;
- o various cost-plus aggregators, franchisers and national computer retailers, such as CompUSA, Inc.; and
- o 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.

The Company competes not only for customers, but also for favorable product allocations and cooperative advertising support from product manufacturers. Several of the Company's competitors are larger and have substantially greater financial resources.

The Company believes that price, product selection and availability, and service and support are the most important competitive factors in its industry.

INTELLECTUAL PROPERTY RIGHTS

The Company's trademarks include PC Connection(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), Memory Connection(TM), and Your Brands, Your Way, Next Day(R). The Company intends to use and protect these and its other marks, as it deems necessary. The Company believes its trademarks and service marks have significant value and are an important factor in the marketing of its products. The Company does not maintain a traditional research and development group, but it works 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 it sells and uses.

EMPLOYEES

As of December 31, 1999, the Company employed 1,296 persons, of whom 559 were engaged in sales related activities, 96 were engaged in providing customer service and support, 396 were engaged in purchasing, marketing and distribution related activities, 74 were engaged in the operation and development of management information systems, and 171 were engaged in administrative and accounting functions. The Company considers its employee relations to be good. The Company's employees are not represented by a labor union and the Company has never experienced a work stoppage since its inception.

Item 2. Properties

In November 1997, the Company entered into a fifteen year lease for a new corporate headquarters and telemarketing center located at Route 101A, 730 Milford Road, Merrimack, New Hampshire 03054-4631, with an affiliated entity, related to the Company through common ownership. The Company occupied this facility upon completion of construction in late November 1998 and the lease payments commenced in December 1998. The Company also leases 205,000 square feet in two facilities in Wilmington, Ohio, which houses its distribution and order fulfillment operations. The Company also operates telemarketing centers in Dover, Hudson and Keene, New Hampshire, as well as in Maryland. While the Company believes that its existing distribution facilities in Wilmington, Ohio will be sufficient to support the Company's anticipated needs through the next twelve months, it is evaluating additional and/or alternative facilities for distribution to support future growth.

Item 3. Legal Proceedings

The Company currently is not a party to any material legal proceedings, other than ordinary routine litigation incidental to the business.

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

There were no matters submitted during the fourth quarter of 1999 to a vote of security holders.

Executive Officers

The executive officers of the Company and their ages as of March 27, 2000 are as follows:

| Name | Age | Position |
|--------------------|-----|--|
| Patricia Gallup | 46 | Chairman of the Board and Chief Executive Officer |
| David Hall | 50 | Vice Chairman of the Board |
| Wayne L. Wilson | 51 | President and Chief Operating Officer |
| Robert F. Wilkins | 38 | Senior Vice President of Sales and Marketing |
| John L. Bomba, Jr. | 46 | Vice President of Information Services and Chief Information Officer |
| Mark A. Gavin | 38 | Vice President of Finance and Chief Financial Officer |

Patricia Gallup is a co-founder of the company and has served as Chairman of the Board and Chief Executive Officer of the Company since January 1998. From September 1995 to January 1998, Ms. Gallup served as the Chairman of the Board, President and Chief Executive Officer of the Company. From September 1994 to September 1995, she served as Chairman of the Board 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.

David Hall is a co-founder of the Company and has served as Vice Chairman of the Board since November 1997. From June 1997 to November 1997, Mr. Hall served as the Vice Chairman of the Board, Executive Vice President and Treasurer of the Company. From February 1995 to June 1997, Mr. Hall served as the Company's Vice Chairman of the Board and Executive Vice President. From March 1991 to February 1995, he served as the Executive Vice President of the Company.

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 Senior Vice President of Sales and Marketing since January 1999 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.

John L. Bomba, Jr. has served as Vice President of Information Services and Chief Information Officer of the Company since May 1997. From May 1994 to April 1997, Mr. Bomba served as Director of Worldwide Information Systems for Micro Warehouse, Inc. Prior to May 1994 he served as Director of Professional Services for Innovative Information Systems, Inc.

Mark A. Gavin has served 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. Prior to CFX, Mr. Gavin worked as a Manager for Ernst & Young, LLP.

PART II

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

Market Information

The Company's Common Stock commenced trading on March 3, 1998 on the Nasdaq National Market under the symbol "PCCC". As of March 27, 2000, there were 15,794,298 shares outstanding of the Common Stock of the Company held by approximately 70 stockholders of record.

The following table sets forth for the fiscal periods indicated the range of high and low closing prices for the Company's Common Stock on the Nasdaq National Market.

| 1999 ---- | High ---- | Low --- |
|------------------|--------------|------------|
| Quarter Ended: | | |
| December 31 | \$34 7/8 | \$13 2/3 |
| September 30 | 17 3/8 | 12 |
| June 30 | 19 | 12 |
| March 31 | 27 1/8 | 11 1/8 |
| 1998 ---- | | |
| Quarter Ended: | | |
| December 31 | \$40 | \$ 6 |
| September 30 | 25 3/4 | 9 3/4 |
| June 30 | 22 1/4 | 12 |
| March 31 | 22 1/8 | 18 5/8 |

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

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, 1999 are derived from the audited financial statements of the Company. The Company's consolidated financial statements as of December 31, 1999 and 1998 and for each of the years in the three-year period ended December 31, 1999 and the independent auditors' report thereon, are included elsewhere herein.

| | Year Ended December 31, | | | | |
|--|--|------------|------------|------------|------------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| | (dollars in thousands, except per share and selected operating data) | | | | |
| Statement of Operations Data: | | | | | |
| Net sales | \$ 1,056,704 | \$ 732,370 | \$ 550,575 | \$ 333,322 | \$ 252,217 |
| Cost of sales | 927,358 | 639,096 | 474,609 | 282,117 | 211,299 |
| Gross profit | 129,346 | 93,274 | 75,966 | 51,205 | 40,918 |
| Selling, general and administrative expenses | 91,405 | 68,521 | 56,596 | 43,739 | 38,373 |
| Additional stockholder/officer compensation(1) | -- | 2,354 | 12,130 | 1,259 | -- |
| Income from operations | 37,941 | 22,399 | 7,240 | 6,207 | 2,545 |
| Interest expense | (1,392) | (415) | (1,355) | (1,269) | (1,296) |
| Other, net | 116 | 565 | (42) | 70 | 62 |
| Income before income taxes | 36,665 | 22,549 | 5,843 | 5,008 | 1,311 |
| Income tax provision(2) | (13,935) | (3,905) | (639) | (252) | (38) |
| Net income | \$ 22,730 | \$ 18,644 | \$ 5,204 | \$ 4,756 | \$ 1,273 |

Pro Forma Data(3)

| | | | |
|------------------------------|-----------|-----------|-----------|
| Net income | \$ 22,730 | \$ 15,272 | \$ 10,890 |
| Basic net income per share | \$ 1.45 | \$ 1.01 | \$.79 |
| Diluted net income per share | \$ 1.41 | \$.98 | \$.76 |

Selected Operating Data:

| | | | | | |
|-----------------------|------------|------------|------------|------------|------------|
| Active customers(4) | 732,000 | 684,000 | 510,000 | 424,000 | 353,000 |
| Catalogs distributed | 47,325,000 | 42,150,000 | 33,800,000 | 18,600,000 | 16,800,000 |
| Orders entered(5) | 1,622,000 | 1,510,000 | 1,252,000 | 910,000 | 854,000 |
| Average order size(5) | \$781 | \$580 | \$524 | \$453 | \$346 |

December 31,

| | December 31, | | | | |
|---|------------------------|-----------|-----------|-----------|-----------|
| | 1999 | 1998 | 1997 | 1996 | 1995 |
| | (dollars in thousands) | | | | |
| Balance Sheet Data: | | | | | |
| Working capital | \$ 72,250 | \$ 53,768 | \$ 18,907 | \$ 14,622 | \$ 10,994 |
| Total assets | 223,537 | 164,510 | 105,442 | 77,358 | 49,661 |
| Short-term debt | 1,137 | 123 | 29,568 | 13,057 | 4,933 |
| Long-term debt (less current maturities): | | | | | |
| Capital lease obligations | 6,945 | 7,081 | -- | -- | -- |
| Term loan | -- | -- | 3,250 | 4,250 | 5,000 |
| Note payable | 2,000 | -- | -- | -- | -- |
| Total stockholders' equity | 94,223 | 69,676 | 24,120 | 18,043 | 13,057 |

(1) Represents amounts accrued or distributed in excess of aggregate annual base salaries approved by the Board of Directors and generally represents Company-related federal income tax obligations payable by the stockholders.

(2) 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.

(3) The following 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:

- (i) Elimination of stockholder/officer compensation in excess of aggregate annual base salaries of \$600 in effect during 1998 in accordance with employment agreements; and
- (ii) Computation of income tax expense assuming an effective tax rate of approximately 39% (see Note 9 to the financial statements) and after adjusting stockholder/officer compensation expense described in (i) above.

(4) Represents estimates of all customers included in the Company's mailing

list who have made a purchase within the last twelve month period.
(5) 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 industry in which the Company operates, 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 economic risks. 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 SEC.

General

The Company 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. The Company initially sought customers through advertising in selected computer industry publications and the use of inbound toll-free telemarketing. Currently, the Company seeks 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 the Company's catalogs and other advertising and (iii) the Company's Internet Web site.

The Company offers both PC compatible products and Mac compatible products. Reliance on Mac product sales has decreased over the last three years, from 23.0% of net sales in 1996 to 15.3% of net sales for the year ended December 31, 1999. The Company believes that sales attributable to Mac products will continue to decrease as a percentage of net sales and may decline in dollar volume in 2000 and future years.

All of the Company's product categories experienced strong growth in the year ended December 31, 1999 with sales of computer systems representing the fastest growing category. Sales of computer systems result in a relatively high dollar sales order, as reflected in the increase in the Company's average order size from \$453 in the year ended December 31, 1996 to \$781 in the year ended December 31, 1999. Computer system sales generally provide the largest gross profit dollar contribution per order of all of the Company's products, although they generally yield the lowest gross margin percentage. Partially as a result of higher system sales, the Company's gross margin percentage has declined over the last few years while the operating income margin has increased due to the leveraging of selling, general and administrative expenses over a larger sales base.

The Company's 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 the Company intends 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. The Company believes that outbound sales will continue to represent a larger portion of its 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 Computer Corporation ("Dell") and Gateway, Inc. ("Gateway"), manufacturers of PCs sold by the Company, such as Apple, Compaq and IBM, have also announced varying plans to sell PCs directly to end users. The Company currently believes that direct sales by Compaq and IBM will not have a significant adverse effect upon the Company's net sales.

Most product manufacturers provide the Company with co-op advertising support in exchange for product coverage in the Company's catalogs. Although the level of co-op advertising support available to the Company from certain manufacturers has declined, and may decline further in the future, the overall level of co-op advertising revenues has continued to increase consistent with the Company's increased levels of spending for catalog and other advertising programs. The Company believes that the overall levels of co-op advertising revenues available over the next twelve months will be consistent with the Company's planned advertising programs.

Results of Operations

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

| | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 1999 | 1998 | 1997 |
| Net sales (in millions) | \$ 1,056.7 | \$ 732.4 | \$ 550.6 |
| Net sales | 100.0% | 100.0% | 100.0% |
| Gross profit | 12.2 | 12.7 | 13.8 |
| Selling, general and administrative expenses | 8.6 | 9.4 | 10.3 |
| Additional stockholder/officer compensation | 0.0 | 0.3 | 2.2 |
| Income from operations | 3.6 | 3.1 | 1.3 |
| Interest expense | (0.1) | (0.0) | (0.2) |
| Income before income taxes | 3.5 | 3.1 | 1.0 |
| Income taxes | 1.3 | (0.5) | (0.1) |
| Net income | 2.2 | 2.6 | 0.9 |
| Pro forma net income | | 2.1 | 2.0 |

The following table sets forth the Company's percentage of net sales by platform, sales channel, and product mix:

| | Year Ended December 31, | | |
|-------------------------------|-------------------------|------|------|
| | 1999 | 1998 | 1997 |
| Platform | | | |
| PC and Multi Platform | 85% | 80% | 80% |
| Mac | 15 | 20 | 20 |
| Total | 100% | 100% | 100% |
| Sales Channel | | | |
| Corporate Outbound | 66% | 53% | 47% |
| Inbound Telesales | 29 | 43 | 52 |
| On-Line Internet | 5 | 4 | 1 |
| Total | 100% | 100% | 100% |
| Product Mix | | | |
| Computer Systems and Memory | 48% | 44% | 42% |
| Peripherals | 34 | 35 | 34 |
| Software | 12 | 14 | 16 |
| Networking and Communications | 6 | 7 | 8 |
| Total | 100% | 100% | 100% |

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net sales increased \$324.3 million, or 44.3%, to \$1,056.7 million in 1999 from \$732.4 million in 1998. The growth in net sales, which included a 34.6% increase in average order size, was primarily attributable to (i) continued improvements in merchandising and product mix, including the stocking and sale of computer systems; (ii) continued expansion and increased productivity of the Company's outbound telemarketing group; (iii) an increase in the number of catalog mailings; and (iv) sales attributed to the acquisition of ComTeq in June 1999. System/memory sales increased to 47.6% of net sales in 1999 from 43.7% in 1998. Outbound sales increased \$304 million, or 77.8%, to \$694.9 million in 1999 from \$390.9 million in 1998. The number of catalogs mailed increased by 12.1%, from 42.2 million catalogs in 1998 to 47.3 million catalogs in 1999.

Gross profit increased \$36.1 million, or 38.7%, to \$129.3 million in 1999 from \$93.3 million in 1998. The increase in gross profit dollars was primarily attributable to the increase in net sales described above. Gross profit margin decreased from 12.7% in 1998 to 12.2% in 1999 due primarily to a higher rate of growth in sales of lower margin computer systems, increased price competition, decreases in average unit selling prices and an increase in the rate of outbound sales which generally carry a lower gross margin percentage. However, the Company continued to generate higher gross profit dollars per order, enabling it to leverage its operating expenses, as described below. The Company's gross profit margin may vary based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

Selling, general and administrative expenses increased \$22.9 million, or 33.4%, to \$91.4 million in 1999 from \$68.5 million in 1998, but decreased as a percentage of sales to 8.6% in 1999 from 9.4% in 1998. The increase in expense was attributable to increases in volume-sensitive costs such as sales personnel and credit card fees. The decrease as a percentage of net sales was primarily attributable to the continued leveraging of selling, general and administrative expenses over a larger sales base.

Selling, general and administrative expenses, excluding the one-time charge for stock option compensation expense in 1998, increased by \$23.7 million, or 35.1%, to \$91.4 million for the year ended December 31, 1999 from \$67.7 million for the comparable period in 1998, but decreased as a percentage of sales from 9.2% in 1998 to 8.6% in 1999.

Additional stockholder/officer compensation paid to the Company's two principal stockholders in 1998, who also serve as officers and directors, represented amounts accrued or distributed in excess of aggregate annual base salaries (\$600,000 aggregate base salaries for 1998) approved by the Board of Directors of the Company and generally represent Company-related federal income tax obligations payable by the stockholders. There were no such charges in 1999 as the Company was a C Corporation for the entire year.

Income from operations increased by \$15.5 million, or 69%, to \$37.9 million for the year ended December 31, 1999 from \$22.4 million for the comparable period in 1998. Income from operations as a percentage of net sales increased from 3.1% in 1998 to 3.6% in 1999 for the reasons discussed above.

Interest expense increased by \$977,000, or 235.4%, to \$1,392,000 in 1999 from \$415,000 in 1998, primarily due to the capital lease obligation for the Merrimack facility which began in December 1998 and increased borrowings under the Company's line of credit.

The tax provision for 1999 reflects a full year of the Company being taxed as a C Corporation. In 1998, the Company's effective tax rate was 17.3% as a result of both its taxation as an S Corporation for a part of the year as well as the recognition of certain deferred tax assets upon conversion to a C Corporation.

Net income increased by \$4.1 million, or 22%, to \$22.7 million in 1999 from \$18.6 million in 1998, principally as a result of the increase in income from operations. As described above, 1998 net income was also favorably impacted by the Company's previous S Corporation status and its conversion to a C Corporation.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net sales increased \$181.8 million, or 33.0%, to \$732.4 million in 1998 from \$550.6 million in 1997. The growth in net sales, which included a 10.7% increase in average order size, was primarily attributable to (i) continued improvements in merchandising and product mix, including the stocking and sale of computer systems; (ii) continued expansion and increased productivity of the Company's outbound telemarketing group; and (iii) an increase in the number of catalog mailings. System/memory sales increased to 43.7% of net sales in 1998 from 42.2% in 1997. Outbound sales increased \$133.7 million, or 52.0%, to \$390.9 million in 1998 from \$257.2 million in 1997. The number of catalogs mailed increased by 24.9%, from 33.8 million catalogs in 1997 to 42.2 million catalogs in 1998.

Gross profit increased \$17.3 million, or 22.8%, to \$93.3 million in 1998 from \$76.0 million in 1997. The increase in gross profit dollars was primarily attributable to the increase in net sales described above. Gross profit margin decreased from 13.8% in 1997 to 12.7% in 1998 due primarily to a higher rate of growth in sales of lower margin computer systems, increased price competition, decreases in average unit selling prices and an increase in the rate of charges to cost of sales for slow-moving and obsolete inventory. However, the Company continued to generate higher gross profit dollars per order, enabling it to leverage its operating expenses, as described below. The Company's gross profit margin may vary based upon vendor support programs, product mix, pricing strategies, market conditions and other factors.

Selling, general and administrative expenses increased \$11.9 million, or 21.1%, to \$68.5 million in 1998 from \$56.6 million in 1997, but decreased as a percentage of sales to 9.4% in 1998 from 10.3% in 1997. The increase in expense was attributable to increases in volume-sensitive costs such as sales personnel and credit card fees. The decrease as a percentage of net sales was primarily attributable to the continued leveraging of selling, general and administrative expenses over a larger sales base.

Selling, general and administrative expenses, excluding the one-time charge for stock option compensation expense, increased by \$11.1 million, or 19.5%, to \$67.7 million for the year ended December 31, 1998 from \$56.6 million for the comparable period in 1997, but decreased as a percentage of sales from 10.3% in 1997 to 9.2% in 1998.

Additional stockholder/officer compensation paid to the Company's two principal stockholders, who also serve as officers and directors, represents amounts accrued or distributed in excess of aggregate annual base salaries (\$600,000 aggregate base salaries for 1998 and \$480,000 for 1997) approved by the Board of Directors of the Company and generally represent Company-related federal income tax obligations payable by the stockholders. Effective upon the closing of the Offering, these stockholder/officers were paid annual base salaries aggregating \$600,000. Selling, general and administrative expenses on a pro forma basis were \$56.7 million, or 10.3% of net sales, for 1997, as adjusted to give effect to \$600,000 of aggregate base salaries payable to the Company's two stockholder/officers. Additional stockholder/officer compensation decreased by \$9.8 million, or 80.6%, to \$2.4 million in 1998 from \$12.1 million in 1997. This decrease is attributable to the Company's termination of its S Corporation status upon consummation of the Company's initial public offering ("the Offering"), which eliminated the need to make further distributions to the stockholder/officers for payment of Company-related federal income tax obligations.

Income from operations increased by \$15.2 million, or 209.4%, to \$22.4 million for the year ended December 31, 1998 from \$7.2 million for the comparable period in 1997. Income from operations as a percentage of net sales increased from 1.3% in 1997 to 3.1% in 1998 for the reasons discussed above. Income from operations, excluding additional stockholder/officer compensation, for the year ended December 31, 1998 was \$24.8 million, an increase of \$5.4 million, or 27.8%, over the prior year income of \$19.4 million. Income from operations as a percentage of net sales, excluding additional stockholder/officer compensation, decreased from 3.5% in 1997 to 3.4% in 1998.

Income from operations, excluding both the one-time charge for stock option compensation expense in 1998 (\$870,000) and the additional stockholder/officer compensation in excess of their aggregate annual base salaries of \$600,000 (\$2.4 million and \$12.0 million for the year ended December 31, 1998 and 1997, respectively), increased by \$6.3 million, or 33.1%, to \$25.6 million for the year ended December 31, 1998 from \$19.3 million for the comparable period in 1997. Such income from operations as a percentage of net sales was 3.5% for 1998 and 1997.

Interest expense decreased by \$940,000, or 69.4%, to \$400,000 in 1998 from \$1.4 million in 1997, primarily due to the repayment of all outstanding borrowings under the Company's line of credit in March 1998 upon the closing of the Offering.

Net income increased by \$13.4 million, or 258.3%, to \$18.6 million in 1998 from \$5.2 million in 1997, principally as a result of the increase in income from operations.

Pro forma net income for 1998 and 1997 is determined by (i) eliminating stockholder/officer compensation in excess of the aggregate base salaries (\$600,000) described above under "selling, general and administrative expenses" and (ii) adding a provision for federal income taxes that would have been payable by the Company if taxed under Subchapter C of the Internal Revenue Code. Net income on a pro forma basis as described above would have been \$15.3 million for 1998, compared to \$10.9 million for 1997. The difference in pro forma net income compared to historical net income represents the elimination of \$2.4 million and \$12.0 million in stockholder/officer compensation in 1998 and 1997, respectively, offset by higher provisions for federal income taxes of \$5.7 million and \$6.3 million, respectively.

Excluding a one-time charge for the acceleration of certain stock option compensation expense (described above), the Company would have reported pro forma net income of \$15.8 million, or \$1.02 per share, for the year ended December 31, 1998, compared to pro forma net income of \$10.9 million, or \$.76 per share, for the comparable period in 1997, an increase of \$.26 per share, or 34%.

Liquidity and Capital Resources

The Company has historically financed its operations and capital expenditures through cash flow from operations and bank borrowings. The Company believes that funds generated from operations, together with the net proceeds from the Company's 1998 initial public offering and available credit under its bank line of credit, will be sufficient to finance its working capital and capital expenditure requirements at least through 2000. The Company's ability to continue funding its planned growth, both internally and externally, is dependent upon its 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.

At December 31, 1999, the Company had cash and cash equivalents of \$20.4 million and working capital of \$72.3 million.

Net cash provided by operating activities was \$16.0 million in the year ended December 1999, compared to \$29.4 million provided and \$10.4 million used in the years ended December 31, 1998, and 1997, respectively. The primary factors historically affecting cash flows from operations are the Company's net income and changes in the levels of accounts receivable, inventories and accounts payable. Historically, inventories and accounts payable have increased as a result of the sales growth of the Company. Accounts receivable have increased primarily due to an increase in open account sales to commercial customers resulting from the Company's continued efforts to increase its sales to such customers offset in part by a higher rate of increase in accounts receivable allowances for sales returns and doubtful accounts related to the growth in sales.

At December 31, 1999, the Company had \$105.5 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 \$31.0 million payable to two financial institutions under security agreements to facilitate the purchase of inventory.

Capital expenditures were \$7.7 million, \$9.9 million and \$4.5 million in the years ended December 31, 1999, 1998 and 1997, respectively. The Company expects capital expenditures, primarily for the purchase of computer hardware and software and other fixed assets, to be approximately \$16.6 million for the year ending December 31, 2000.

The Company has an unsecured credit agreement with a bank providing for short-term borrowings up to \$50 million, which bears interest at various rates ranging from the prime rate (8.50% at December 31, 1999) 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 the Company believes significantly restricts its operations. No borrowings were outstanding at December 31, 1999.

The Company has primarily relied upon debt to finance not only ongoing operations, but acquisitions. In 1999, it used available cash and sellers notes to acquire ComTeq Federal, Inc., a Maryland company which provides specialty resale products to agencies of the federal government. Management could, in the future, use debt, cash, or stock to effect additional acquisitions.

Recently Issued Financial Accounting Standards

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", adjusted to be effective for fiscal years beginning after June 15, 2000. The new standard requires that all companies record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Management is currently assessing the impact of SFAS No. 133 on the financial statements of the Company. The Company will adopt this accounting standard on January 1, 2001, as required.

Inflation

The Company has historically offset any inflation in operating costs by a combination of increased productivity and price increases, where appropriate. The Company does not expect inflation to have a significant impact on its business in the future.

Factors That May Affect Future Results and Financial Condition

The Company's future results and financial condition are dependent on its ability to continue to successfully market, sell and distribute computers, hardware and software. Inherent in this process are a number of factors that the Company must successfully manage in order to achieve favorable operating results and financial condition. Potential risks and uncertainties that could affect the Company's future operating results and financial condition include, without limitation, the factors discussed below:

The Company has experienced rapid growth in recent years and there is no assurance that it will be able to manage or sustain such growth.

The Company's net sales have grown from \$252.2 million for the year ended December 31, 1995 to \$1.1 billion for the year ended December 31, 1999. This growth has placed, and any future growth will place, increasing demands on the Company's administrative, operational, financial and other resources. The Company's staffing levels and operating expenses have increased and are expected to increase substantially in the future. The Company also expects that any future growth will continue to challenge its ability to hire, train, motivate and manage employees. If the Company's net sales do not increase in proportion to its operating expenses or if the Company experiences a decrease in net sales, its information systems do not expand to meet increasing demands, or the Company fails to attract, assimilate and retain qualified personnel or otherwise fail to manage its growth effectively, there would be a material adverse effect on the Company's results of operations.

The Company may not have sufficient distribution facilities to support future growth.

The Company's current distribution facilities may be inadequate to support any significant growth in the future. The Company currently occupies two buildings aggregating 205,000 square feet in Wilmington, Ohio under leases which expire in 2000 and 2003. There is no assurance that the Company can renew these leases on favorable terms or at all. The Company is continually assessing its needs for additional warehouse facilities. There can be no assurance that suitable commercial facilities will be available, or if available, that such facilities would be available at commercially reasonable rates.

The Company could experience system failures which would interfere with its ability to process orders.

The Company depends on the accuracy and proper use of its management information systems including its telephone system. Many of the Company's key functions depend on the quality and effective utilization of the information generated by its management information systems, including:

- o the Company's ability to manage inventory and accounts receivable collections;
- o the Company's ability to purchase, sell and ship products efficiently and on a timely basis; and
- o the Company's ability to maintain operations.

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

The Company's management information systems require continual upgrades to most effectively manage its operations and customer database. Although the Company maintains some redundant systems, with full data backup, a substantial interruption in management information systems or in telephone communication systems would substantially hinder its ability to process customer orders and thus could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company is 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. The Company's success depends in large part on its 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, the Company has and may continue to carry increased inventory levels of certain products. By so doing, it is subject to the increased risk of inventory obsolescence. Also, in order to implement its business strategy, the Company intends, among other things, to place larger than typical inventory stocking orders, and increase participation in first-to-market purchase opportunities. In the future, the Company 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, the Company sometimes acquires special purchase products without return privileges. There can be no assurance that the Company 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 the Company which could negatively impact the Company's business, financial condition and results of operations.

The Company acquires products for resale from a limited number of vendors; the loss of any one of these vendors could have a material adverse effect on its business.

The Company acquires products for resale both directly from manufacturers and indirectly through distributors and other sources. The five vendors supplying the greatest amount of goods to the Company constituted 50.7% and 44.5% of the Company's total product purchases in the years ended December 31, 1999 and 1998, respectively. Among these five vendors, purchases from Ingram Micro, Inc. represented 21.7% and 20.3% of the Company's total product purchases in the years ended December 31, 1999 and 1998, respectively. No other vendor supplied more than 10% of the Company's total product purchases in the year ended December 31, 1999. If the Company were unable to acquire products from Ingram Micro, the Company could experience a short-term disruption in the availability of products and such disruption could have a material adverse effect on the Company's results of operations and cash flows.

Substantially all of the Company's contracts and arrangements with its vendors that supply significant quantities of products are terminable by such vendors or the Company without notice or upon short notice. Most of the Company's product vendors provide it with trade credit, of which the net amount outstanding at December 31, 1999 was \$83.2 million. Termination, interruption or contraction of relationships with the Company's vendors, including a reduction in the level of trade credit provided to the Company, could have a material adverse effect on the Company's financial position.

Some product manufacturers either do not permit the Company to sell the full line of their products or limit the number of product units available to direct marketers such as the Company. An element of the Company's business strategy is to increase its 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. The Company could experience a material adverse effect to its business if the Company is unable to source first-to-market purchase or similar opportunities, or if the Company faces the reemergence of significant availability constraints.

The Company may experience a reduction in the incentive programs offered to it by vendors.

Some product manufacturers and distributors provide the Company 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:

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

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

The Company faces many competitive risks.

The direct marketing industry and the computer products retail business, in particular, are highly competitive. The Company competes with consumer electronics and computer retail stores, including superstores. The Company also competes with other direct marketers of hardware and software and computer related products, including an increasing number of Internet retailers, some of which sell products at or below cost. Certain hardware and software vendors are selling their products directly through their own catalogs and over the Internet. The Company competes not only for customers, but also for co-op advertising support from personal computer product manufacturers. Some of the Company's competitors have greater financial, marketing and larger catalog circulations and customer bases and other resources than does the Company. In addition, many of the Company's competitors offer a wider range of products and services than it does 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 the Company. The Company expects competition to increase as retailers and direct marketers who have not traditionally sold computers and related products enter the industry.

The Company cannot assure that it can continue to compete effectively against its current or future competitors. In addition, price is an important competitive factor in the personal computer hardware and software market and the Company cannot assure that the Company will not face increased price competition. If the Company encounters new competition or fails to compete effectively against competitors, its business, financial condition and results of operations could be adversely affected.

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.

The Company faces and will continue to face significant and intense price competition.

Generally, pricing is very aggressive in the personal computer industry and the Company expects pricing pressures to continue. An increase in price competition could result in a reduction of the Company's profit margins. There can be no assurance that the Company 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, the Company's recent increase in 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 the Company's market share, reduced sales and reduced operating margins, any of which could have a material adverse effect on the Company's business.

Privacy concerns with respect to list development and maintenance may materially adversely affect the Company's business.

The Company mails catalogs and sends electronic messages to names in its proprietary customer database and to potential customers whose names the Company obtains from rented or exchanged mailing lists. Worldwide 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 the Company's business, financial condition and results of operations.

The Company relies on the continued development of electronic commerce and Internet infrastructure development.

The Company's level of sales made over the Internet has increased in part because of the growing use and acceptance of the Internet by end-users. This growth is a recent development. 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 the Company's Internet sales is dependent on potential customers using the Internet in addition to traditional means of commerce to purchase products. The Company cannot accurately predict the rate at which they will do so.

The Company's success in growing its 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. The Company's

ability to increase the speed with which it provides 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. The Company cannot assure that networks and infrastructure providing sufficient capacity and reliability will continue to be developed.

The Company depends heavily on third-party shippers to deliver its products to customers.

The Company ships approximately 65% of its 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 the Company's ability to market or deliver products to customers on a timely basis.

The Company may experience potential increases in shipping, paper and postage costs, which may adversely affect its business if the Company were not able to pass such increases on to its customers.

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

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

The Company may also experience quarterly fluctuations and seasonality which could impact its business.

Several factors have caused the Company's sales and results of operations to fluctuate, and the Company expects these fluctuations to continue on a quarterly basis. Causes of these fluctuations include:

- o the condition of the personal computer industry in general;
- o shifts in demand for hardware and software products;
- o industry shipments of new products or upgrades;
- o the timing of new merchandise and catalog offerings;
- o fluctuations in response rates;
- o fluctuations in postage, paper, shipping and printing costs and in merchandise returns;
- o adverse weather conditions that affect response, distribution or shipping;
- o shifts in the timing of holidays; and
- o changes in the Company's product offerings.

The Company bases its operating expenditures on sales forecasts. If revenues do not meet expectations in any given quarter, the Company's operating results could suffer.

In addition, customer response rates to the Company's catalog mailings 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.

The methods of distributing personal computers and related products are changing and such changes may negatively impact the Company and its 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 the Company's 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 the Company's results of operations.

The Company faces many uncertainties relating to the collection of state sales or use tax.

The Company presently collects sales tax only on sales of products to residents of Ohio, Tennessee, Maryland and the District of Columbia. The Company began collecting sales tax in Massachusetts in January 2000. Sales to customers located within Ohio, Tennessee, Maryland and the District of Columbia were less than 2% of the Company's net sales during the year ended December 31, 1999. 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, the Company's contact with many states may exceed the contact involved in the Supreme Court case. The Company 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 the Company in states to which the Company ships products would result in additional administrative expenses to the Company, could result in price increases to its customers, and could reduce demand for its product.

The Company is dependent on key personnel.

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

The Company is controlled by two principal stockholders.

Patricia Gallup and David Hall, the Company's two principal stockholders, beneficially own or control, in the aggregate, approximately 75% of the outstanding shares of the Company's 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 the Company's charter and bylaws, or take other actions requiring the vote or consent of the Company's stockholders and prevent a takeover of the Company by one or more third parties, or sell or otherwise transfer their stock to a third party, which could deprive the Company's stockholders of a control premium that might otherwise be realized by them in connection with an acquisition of the Company. Such control may result in decisions that are not in the best interest of the Company's public stockholders. In connection with the Company's initial public offering, the principal stockholders placed all except 30,000 of the 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 the Company's common stock at a premium as well as have a negative impact on the market price of the Company's common stock.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

The Company invests cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, the Company's Credit Agreement provides for borrowings which bear interest at variable rates based on the prime rate. The Company had no borrowings outstanding pursuant to the Credit Agreement as of December 31, 1999. The Company believes that the effect, if any, of reasonably possible near-term changes in interest rates on the Company's financial position, results of operations and cash flows should not be 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 the Company's definitive Proxy Statement for its 2000 Annual Meeting of Stockholders to be held May 25, 2000 (the "Proxy Statement") is incorporated herein by reference. The Company anticipates filing the Proxy Statement within 120 days after December 31, 1999. 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 ----- |
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| Report of Management..... | F-2 |
| Independent Auditors' Report..... | F-3 |
| Consolidated Balance Sheets..... | F-4 |
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| Consolidated Statement of Changes in Stockholders' Equity..... | F-6 |
| Consolidated Statements of Cash Flows..... | F-7 |
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(2) Consolidated Financial Statement Schedule:

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

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

(3) Supplementary Data
 Not applicable.

(b) Reports on Form 8-K

The Company filed a current report on Form 8-K on January 3, 2000, due to the reorganization of the Company.

(c) Exhibits

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

EXHIBIT INDEX

| Exhibits ----- | Page Reference ----- |
|---|-------------------------|
| *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.
- *10.4 Lease between the Registrant and Lower Bellbrook Company, dated September 26, 1997, for property located at 643-651 Lower Bellbrook Avenue, Xenia, Ohio.
- *10.5 Lease between the Registrant and Gallup & Hall partnership, dated May 1, 1997, for property located at 442 Marlboro Street, Keene, New Hampshire.
- *10.6 Lease between the Registrant and Gallup & Hall partnership, dated June 1, 1987, as amended, for property located in Marlow, New Hampshire.
- *10.7 Lease between the Registrant and Gallup & Hall partnership, dated July 22, 1998, for property located at 450 Marlboro Street, Keene, New Hampshire.
- *10.9 Lease between the Registrant and Century Park, LLC, dated October 1, 1997 for property located at Route 111, Hudson, New Hampshire.
- *10.10 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.
- *10.11 Sublease between the Registrant and ABX Air Inc., dated June 7, 1995, for property located at 2870 Old State Route 73, Wilmington, Ohio.
- *10.12 Employment Agreement between the Registrant and Wayne L. Wilson, dated August 16, 1995.
- *10.13 Employment Agreement between the Registrant and Robert F. Wilkins, dated December 23, 1995.
- *10.15 Letter Agreement between the Registrant and Airborne Freight Corporation D/B/A "Airborne Express," dated April 30, 1990, as amended.
- *10.16 Agreement between the Registrant and Ingram Micro, Inc., dated October 30, 1997, as amended.
- *10.18 Employment Agreement, dated as of January 1, 1998, between the Registrant and Patricia Gallup.
- *10.19 Employment Agreement, dated as of January 1, 1998, between the Registrant and David Hall.
- *10.20 Form of Registration Rights Agreement among the Registrant, Patricia Gallup, David Hall and the 1998 PC Connection Voting Trust.
- **10.21 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.
- **10.22 Lease between Registrant and Dover Mills, LLC, dated August 1, 1998 for property located at Cochecho Falls Millworks, Dover, New Hampshire.
- **10.23 Amended Lease Agreement between the Registrant and Dover Mills, LLC, dated August 1, 1998.
- **10.24 Employment Agreement between the Registrant and John L. Bomba, dated March 28, 1997.
- **10.25 Employment Agreement between the Registrant and Mark A. Gavin, dated February 5, 1998.

- 10.26 Agreement for Wholesale Financing, dated as of March 25, 1998, between the Registrant and Deutsche Financial Services Corporation.
- 10.27 Amendment to Agreement for Wholesale Financing, dated as of March 25, 1998, between the Registrant and Deutsche Financial Services Corporation.
- 10.28 Amendment to Agreement for Wholesale Financing, dated as of November 5, 1999, between the Registrant and Deutsche Financial Services Corporation.
- 10.29 Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between the Registrant and Deutsche Financial Services Corporation.
- 10.30 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.
- 10.31 Agreement for Inventory Financing, dated as of August 17, 1999, between the Registrant and IBM Credit Corporation.
- 10.32 Amendment to Agreement for Inventory Financing, dated as of February 25, 2000, between the Registrant and IBM Credit Corporation.
- 10.33 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.
- 10.34 Agreement for Wholesale Financing, dated as of October 12, 1993, between ComTeq Federal, Inc. and IBM Credit Corporation.
- 10.35 Amendment to Agreement for Wholesale Financing, dated as of December 23, 1999, between ComTeq Federal, Inc. and IBM Credit Corporation.
- 10.36 Amendment to Addendum to Agreement for Wholesale Financing, dated as of December 23, 1999, between ComTeq Federal, Inc. and IBM Credit Corporation.
- 10.37 Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and IBM Credit Corporation.
- 10.38 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.
- 10.39 Agreement for Wholesale Financing, dated as of February 25, 2000, between ComTeq Federal, Inc. and Deutsche Financial Services Corporation.
- 10.40 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.
- 10.41 Assignment of Lease Agreements, dated as of December 13, 1999, between Micro Warehouse, Inc. (assignor) and the Registrant (assignee).
- 10.42 Amended and Restated Credit Agreement, dated February 25, 2000, between PC Connection, Inc. the Lenders Party hereto and Citizens Bank of Massachusetts.
- ***23.1 Consent of Deloitte & Touche LLP.
- 23.2 Consent of Deloitte & Touche LLP.
- 27.1 Financial Data Schedule.

* -----
 * 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, File Number 0-23827, filed on March 30, 2000.

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 30, 2000

By: /s/ Patricia Gallup

Patricia Gallup, Chairman and CEO

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/ PETER J. BAXTER ----- Peter J. Baxter | Director | March 30, 2000 |
| /s/ DAVID BEFFA-NEGRINI ----- David Beffa-Negrini | Director | March 30, 2000 |
| /s/ PATRICIA GALLUP ----- Patricia Gallup | CEO and Director (Principal Executive Officer) | March 30, 2000 |
| /s/ DAVID HALL ----- David Hall | Vice Chairman and Director | March 30, 2000 |
| /s/ MARK A. GAVIN ----- Mark A. Gavin | Chief Financial Officer (Principal Financial and Accounting Officer) | March 30, 2000 |
| /s/ MARTIN C. MURRER ----- Martin C. Murrer | Director | March 30, 2000 |
| /s/ WAYNE L. WILSON ----- Wayne L. Wilson | President and COO (Principal Operating Officer) | March 30, 2000 |

PC CONNECTION, INC.

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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 subsidiary ("the Company") management. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, 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 generally accepted accounting principles.

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, independent auditors, 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.

| | | |
|-------------------------|---------------------|-------------------------|
| Patricia Gallup | Wayne L. Wilson | Mark A. Gavin |
| Chairman and | President and Chief | Chief Financial Officer |
| Chief Executive Officer | Operating Officer | |

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of PC Connection, Inc. and subsidiary as of December 31, 1999 and 1998, 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, 1999. Our audits also included the financial statement schedule listed in 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 subsidiary as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, 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 26, 2000

PC CONNECTION, INC.

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

| | December 31, | |
|--|--------------|-----------|
| | 1999 | 1998 |
| | ----- | ----- |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 20,416 | \$ 11,910 |
| Accounts receivable, net | 99,405 | 58,890 |
| Inventories - merchandise | 64,348 | 63,425 |
| Deferred income taxes | 1,991 | 3,181 |
| Prepaid expenses and other current assets | 4,651 | 4,115 |
| | ----- | ----- |
| Total current assets | 190,811 | 141,521 |
| Property and equipment, net | 23,126 | 22,675 |
| Deferred income taxes | -- | 314 |
| Other assets | 169 | -- |
| Goodwill | 9,431 | -- |
| | ----- | ----- |
| Total Assets | \$223,537 | \$164,510 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current maturities of capital lease obligation to affiliate | \$ 137 | \$ 123 |
| Current maturities of long-term debt | 1,000 | -- |
| Accounts payable | 105,547 | 77,561 |
| Accrued expenses and other liabilities | 11,877 | 10,069 |
| | ----- | ----- |
| Total current liabilities | 118,561 | 87,753 |
| Notes payable, less current maturities | 2,000 | -- |
| Capital lease obligation to affiliate, less current maturities | 6,945 | 7,081 |
| Deferred taxes | 1,579 | -- |
| Other liabilities | 229 | -- |
| | ----- | ----- |
| Total Liabilities | 129,314 | 94,834 |
| | ----- | ----- |
| Commitments and Contingencies (Note 11) | | |
| Stockholders' Equity: | | |
| Preferred Stock, \$.01 par value, 7,500 shares authorized, 0 outstanding at December 31, 1999 and December 31, 1998 | -- | -- |
| Common Stock, \$.01 par value, 30,000 shares authorized, 15,767 and 15,605 issued and outstanding at December 31, 1999 and December 31, 1998, respectively | 158 | 156 |
| Additional paid-in capital | 58,627 | 56,812 |
| Retained earnings | 35,438 | 12,708 |
| | ----- | ----- |
| Total Stockholders' Equity | 94,223 | 69,676 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$223,537 | \$164,510 |
| | ===== | ===== |

See notes to consolidated financial statements.

PC CONNECTION, INC.

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share data)

| | Years Ended December 31, | | |
|--|--------------------------|------------|------------|
| | 1999 | 1998 | 1997 |
| Net sales | \$ 1,056,704 | \$ 732,370 | \$ 550,575 |
| Cost of sales | 927,358 | 639,096 | 474,609 |
| Gross Profit | 129,346 | 93,274 | 75,966 |
| Selling, general and administrative expenses ... | 91,405 | 68,521 | 56,596 |
| Additional stockholder/officer compensation | -- | 2,354 | 12,130 |
| Income from operations | 37,941 | 22,399 | 7,240 |
| Interest expense | (1,392) | (415) | (1,355) |
| Other, net | 116 | 565 | (42) |
| Income before taxes | 36,665 | 22,549 | 5,843 |
| Income taxes | (13,935) | (3,905) | (639) |
| Net income | \$ 22,730 | \$ 18,644 | \$ 5,204 |
| Earnings per common share: | | | |
| Basic | \$ 1.45 | | |
| Diluted | \$ 1.41 | | |
| Pro forma data: | | | |
| Historical income before income taxes | \$ 22,549 | \$ 5,843 | |
| Pro forma other adjustments | 2,354 | 12,010 | |
| Pro forma income before income taxes | 24,903 | 17,853 | |
| Pro forma income taxes | 9,631 | 6,963 | |
| Pro forma net income | \$ 15,272 | \$ 10,890 | |
| Pro forma basic net income per share | \$ 1.01 | \$.79 | |
| Pro forma diluted net income per share | \$.98 | \$.76 | |

See notes to consolidated financial statements.

PC CONNECTION, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(amounts in thousands)

| | Common Shares | Stock Amount | Additional Paid-In Capital | Retained Earnings | Total |
|---|------------------|-----------------|----------------------------------|----------------------|-----------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance, January 1, 1997 | 11,799 | \$ 118 | \$ 3,224 | \$ 14,701 | \$ 18,043 |
| Compensation under nonstatutory stock option agreements | -- | -- | 873 | -- | 873 |
| Net Income | -- | -- | -- | 5,204 | 5,204 |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1997 | 11,799 | 118 | 4,097 | 19,905 | 24,120 |
| | ----- | ----- | ----- | ----- | ----- |
| Net proceeds from initial public offering ... | 3,594 | 36 | 57,217 | -- | 57,253 |
| Dividend | -- | -- | (7,196) | (25,841) | (33,037) |
| Exercise of stock options, including income tax benefits | 212 | 2 | 1,397 | -- | 1,399 |
| Compensation under nonstatutory stock option agreements | -- | -- | 1,297 | -- | 1,297 |
| Net income | -- | -- | -- | 18,644 | 18,644 |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1998 | 15,605 | 156 | 56,812 | 12,708 | 69,676 |
| | ----- | ----- | ----- | ----- | ----- |
| Exercise of stock options, including income tax benefits | 117 | 1 | 1,183 | -- | 1,184 |
| Issuance of stock under employee stock purchase plan | 45 | 1 | 470 | -- | 471 |
| Compensation under nonstatutory stock option agreements | -- | -- | 162 | -- | 162 |
| Net income | -- | -- | -- | 22,730 | 22,730 |
| | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1999 | 15,767 | \$ 158 | \$ 58,627 | \$ 35,438 | \$ 94,223 |
| | ===== | ===== | ===== | ===== | ===== |

See notes to consolidated financial statements.

PC CONNECTION, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

| | Years Ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 1999 | 1998 | 1997 |
| Cash Flows from Operating Activities: | | | |
| Net income | \$ 22,730 | \$ 18,644 | \$ 5,204 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | | |
| Depreciation and amortization | 5,334 | 2,866 | 3,660 |
| Deferred income taxes | 2,523 | (1,945) | (154) |
| Compensation under nonstatutory stock option agreements ... | 162 | 1,297 | 873 |
| Provision for doubtful accounts | 6,821 | 6,296 | 3,339 |
| Loss on disposal of fixed assets | 159 | -- | 54 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (42,795) | (35,265) | (10,097) |
| Inventories | (305) | 295 | (19,301) |
| Prepaid expenses and other current assets | (504) | (1,910) | (483) |
| Accounts payable | 19,945 | 39,387 | 1,269 |
| Amounts payable to stockholders | -- | (1,185) | 1,185 |
| Accrued expenses and other liabilities | 1,969 | 926 | 4,042 |
| Net cash provided by (used for) operating activities | 16,039 | 29,406 | (10,409) |
| Cash Flows from Investing Activities: | | | |
| Purchases of property and equipment | (7,653) | (9,922) | (4,528) |
| Proceeds from sale of property and equipment | 2,155 | 58 | 22 |
| Payment for purchase of ComTeq, net of cash acquired | (3,198) | -- | -- |
| Net cash used for investing activities | (8,696) | (9,864) | (4,506) |
| Cash Flows from Financing Activities: | | | |
| Proceeds from short-term borrowings | 442,731 | 160,098 | 178,362 |
| Repayment of short-term borrowings | (442,731) | (188,416) | (162,351) |
| Repayment of term loan | -- | (4,500) | (500) |
| Repayment of capital lease obligation to affiliate | (122) | (11) | -- |
| Issuance of stock upon exercise of stock options | 814 | 223 | -- |
| Issuance of stock under Employee Stock Purchase Plan | 471 | -- | -- |
| Net proceeds from initial public offering | -- | 57,253 | -- |
| Payment of dividend | -- | (33,037) | -- |
| Net cash provided by (used for) financing activities | 1,163 | (8,390) | 15,511 |
| Increase in cash and cash equivalents | 8,506 | 11,152 | 596 |
| Cash and cash equivalents, beginning of period | 11,910 | 758 | 162 |
| Cash and cash equivalents, end of period | \$ 20,416 | \$ 11,910 | \$ 758 |
| Supplemental Cash Flow Information: | | | |
| Interest paid | \$ 1,398 | \$ 497 | \$ 1,334 |
| Income taxes paid | 9,374 | 7,275 | 550 |
| Non-Cash Activities: | | | |
| Issuance of notes payable in connection with acquisition of subsidiary | \$ 3,000 | \$ -- | \$ -- |
| Assets acquired under capital lease | -- | 7,215 | -- |

See notes to consolidated financial statements.

PC CONNECTION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(amounts in thousands, except per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PC Connection, Inc. and its subsidiary (the "Company") is a direct marketer of 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 its wholly-owned subsidiary. 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 generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the amounts reported in the accompanying financial statements. Actual results could differ from those estimates.

Revenue Recognition

Revenue on product sales is recognized at the point of shipment. A reserve for sales returns is recorded at the time of sale and has been established based upon historical trends.

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.

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.

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). 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.

Advertising costs charged to expense were \$31,487, \$32,498 and \$27,859 for the years ended December 31, 1999, 1998 and 1997, respectively. Deferred advertising revenues at December 31, 1999 and 1998 exceeded deferred advertising costs of \$423 and \$325 at those respective dates, and, accordingly, such net deferred amounts are included in accrued expenses and other liabilities.

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 1999 was \$324.

Tax Status and Income Taxes

For periods prior to March 6, 1998, the Company elected to be treated as an S Corporation under Subchapter S of the Internal Revenue Code (the "Code"), and applicable state laws. Effective with the consummation of the Company's initial public offering of its common stock on March 6, 1998 (the "Offering"), the Company's S Corporation election was automatically terminated and the Company became subject to federal and state income taxes as a C Corporation from that date forward.

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.

Additional Stockholder/Officer Compensation

Additional stockholder/officer compensation represents amounts accrued or distributed in excess of aggregate annual base salaries approved by the Board of Directors (the "Board") and generally represents Company-related federal income tax obligations payable by the stockholders for periods during which the Company was an S Corporation.

Concentration of Credit Risk

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.

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, when dilutive, for the incremental shares attributed to outstanding options to purchase common stock. The denominator pro forma basic earnings per share for all periods prior to March 6, 1998 includes the weighted average shares required to pay the S Corporation dividend (assuming a price per share of \$17.50 for the year ended December 31, 1998 and \$16.00 for the year ended December 31, 1997).

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

| (amounts in thousands, except per share data) | 1999 | Pro Forma | |
|--|----------|-----------|----------|
| | | 1998 | 1997 |
| Numerator: | | | |
| Net income | \$22,730 | \$15,272 | \$10,890 |
| Denominator: | | | |
| Denominator for basic earnings per share: | | | |
| Weighted average shares | 15,650 | 14,849 | 11,799 |
| Weighted average shares required to pay stockholder dividend ... | -- | 316 | 2,062 |
| Denominator for basic earnings per share | 15,650 | 15,165 | 13,861 |
| Effect of dilutive securities: | | | |
| Employee stock options | 461 | 504 | 383 |
| Denominator for diluted earnings per share | 16,111 | 15,669 | 14,244 |
| Earnings per share: | | | |
| Basic | \$ 1.45 | \$ 1.01 | \$.79 |
| Diluted | \$ 1.41 | \$.98 | \$.76 |

The above pro forma adjustments have been made to the historical results of operations for the period from January 1 through March 5, 1998 and the year ended December 31, 1997 to make the pro forma presentation comparable to what would have been reported had the Company operated as a C Corporation.

- (i) Elimination of stockholder/officer compensation in excess of aggregate annual base salaries of \$600 that were in effect during 1998 in accordance with employment agreements; and
- (ii) Computation of income tax expense assuming an effective tax rate of approximately 39% (see Note9) and after adjusting

stockholder/officer compensation expense described in (i) above.

The following stock options to purchase Common Stock were excluded from the computation of diluted earnings per share for years ended December 31, 1999, 1998, and 1997 because the effect of the options on the calculation would have been anti-dilutive:

| | 1999 | 1998 | 1997 |
|-----------------------------|------|------|------|
| | ---- | ---- | ---- |
| Anti-dilutive stock options | -- | 78 | -- |

Stock-Based Compensation

Compensation expense associated with awards of stock or options to employees is measured using the intrinsic value method in accordance with APB Opinion No. 25. The Board estimated the fair value of the Company's stock for awards made prior to the Offering using market valuations of comparable publicly traded companies, among other factors.

Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income", which requires businesses to disclose comprehensive income and its components in their general-purpose financial statements. The Company has no other comprehensive income in any of the periods presented. Accordingly, a separate statement of comprehensive income is not presented.

Recently Issued Financial Accounting Standards

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", effective for fiscal years beginning after June 15, 1999. The new standard requires that all companies record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Management is currently assessing the impact of SFAS No. 133 on the financial statements of the Company. The Company will adopt this accounting standard on January 1, 2001, as required.

Reclassifications

Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform to the 1999 presentation.

2. ACQUISITION OF SUBSIDIARY

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 \$8.3 million, including acquisition costs and consisted of cash of \$5.3 million and promissory notes aggregating \$3 million. Total cash paid for ComTeq Federal Inc., net of cash acquired, was \$3.2 million. The transaction has been accounted for by the purchase method, and accordingly, the results of operations for the period from June 29, 1999 to December 31, 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 net liabilities assumed has been recorded as goodwill (approximately \$9.7 million). Such amount recorded at December 31, 1999 is subject to change pending final valuation of the net assets acquired. Goodwill will be amortized over a period of 15 years. 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, 1999, the short-term portion of the promissory notes was \$1 million and the long-term portion was \$2 million.

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.

| Year Ended December 31, (in thousands except per share data) | 1999 | 1998 |
|---|-------------|-----------|
| | ---- | ---- |
| Revenues | \$1,081,533 | \$769,567 |
| Net income | 23,350 | 14,647 |
| Diluted earnings per share | 1.45 | .93 |

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

| | December 31, | |
|---|--------------|-----------|
| | 1999 | 1998 |
| Trade | \$ 96,981 | \$ 47,667 |
| Co-op advertising | 2,965 | 6,131 |
| Vendor returns, rebates and other | 7,109 | 14,243 |
| Total | 107,055 | 68,041 |
| Less allowances for: | | |
| Sales returns | (3,717) | (4,030) |
| Doubtful accounts | (3,933) | (5,121) |
| Accounts receivable, net | \$ 99,405 | \$ 58,890 |

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | December 31, | |
|---|--------------|-----------|
| | 1999 | 1998 |
| Facilities under capital lease | \$ 7,215 | \$ 7,215 |
| Leasehold improvements | 5,337 | 5,225 |
| Furniture and equipment | 22,923 | 22,484 |
| Computer software, including licenses and internally-developed software | 10,749 | 7,873 |
| Automobiles | 224 | 192 |
| Total | 46,448 | 42,989 |
| Less accumulated depreciation and amortization | (23,322) | (20,314) |
| Property and equipment, net | \$ 23,126 | \$ 22,675 |

5. BANK BORROWINGS

At December 31, 1999, the Company has an unsecured credit agreement with a bank providing for short-term borrowing up to \$50 million which bears interest at various rates ranging from the prime rate (8.50% at December 31, 1999) to prime rate less 1% depending on the ratio of senior debt to EBITDA. 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, in the opinion of management, significantly restricts the Company's operations. No amounts were outstanding under this facility at December 31, 1999. The credit agreement matures on May 31, 2002.

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

| Year ended December 31, | Weighted Average Interest Rate | Maximum Amount Outstanding | Average Amount Outstanding |
|-------------------------|--------------------------------|----------------------------|----------------------------|
| 1999..... | 7.4% | \$ 29,543 | \$ 4,497 |
| 1998..... | 8.2 | 28,307 | 4,145 |
| 1997..... | 8.6 | 31,890 | 9,458 |

6. TRADE CREDIT ARRANGEMENTS

At December 31, 1999 and 1998, 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 \$54.5 million. The cost of such financing under these agreements is borne by the suppliers. At December 31, 1999 and 1998, accounts payable included \$31,064 and \$21,820, respectively owed to these financial institutions.

7. CAPITAL LEASE

In November 1997, the Company entered into a fifteen-year lease for a new 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, will be 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.

In December 1998, the Company recorded the lease as a capital lease. The recorded value of the asset (facilities under capital lease) and the related liability (capital lease obligation to affiliate) was \$7.2 million, and during 1999 and 1998, the Company made principal and interest payments under this lease aggregating \$911 thousand and \$76 thousand, respectively.

Future aggregate minimum annual lease payments under this lease at December 31, 1999 are as follows:

| Year Ending December 31 ----- | Payments ----- |
|--|-------------------|
| 2000..... | \$ 911 |
| 2001..... | 911 |
| 2002..... | 911 |
| 2003..... | 921 |
| 2004..... | 1,025 |
| 2005 and thereafter..... | 9,714 |
| | ----- |
| Total minimum payments (excluding taxes, maintenance and insurance)..... | 14,393 |
| Less amount representing interest..... | (7,311) |
| | ----- |
| Present value of minimum lease payments..... | 7,082 |
| Less current maturities..... | (137) |
| | ----- |
| Long-term portion..... | \$ 6,945 |
| | ===== |

8. STOCKHOLDERS' EQUITY

Recapitalization and Reincorporation

On February 4, 1998, the Company amended its Articles of Incorporation to increase the authorized shares of the Company's Series A Non-Voting Common Stock, \$.01 par value per share, and Series B Voting Common Stock, \$.01 par value per share to 22,500,000 and 7,500,000 shares, respectively. The Company also, through a 1.310977-for-one stock split, increased the total number of Series A Non-Voting and Series B Voting shares issued and outstanding to 8,849,095 shares and 2,949,698 shares, respectively.

Reincorporation of the Company

Contemporaneous with the consummation of the Company's initial public offering, the Company was reincorporated in Delaware. All of the issued and outstanding shares of Series A Non-Voting Common Stock, \$0.1 par value per share, and Series B Voting Common Stock, \$.01 par value per share, of the New Hampshire corporation were converted into 11,798,793 shares of Common Stock, \$.01 par value, of the Delaware corporation on a one-for-one basis, and the Series A and Series B shares were canceled. The effect of the conversion has been reflected in the Consolidated Statement of Changes in Stockholders' Equity for all periods presented.

Preferred Stock

The Amended and Restated Certificate of Incorporation of the Delaware Corporation (the "Restated Certificate") authorized the issuance of up to 7,500,000 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 1999 and 1998.

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 1,124,163 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 Offering, and 800,000 shares were reserved for issuance under the Plan. 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. In April 1999, the Board adopted, and in May 1999 the stockholders approved, an additional 800,000 shares of Common Stock for issuance under the 1997 Plan.

Information regarding the 1993 and 1997 Plans is as follows:

| | Option Shares | Weighted Average Exercise Price | Weighted Average Fair Value |
|-------------------------------------|---------------|---------------------------------|-----------------------------|
| | ----- | ----- | ----- |
| Outstanding, January 1, 1997..... | 589,940 | 1.89 | 4.22 |
| Granted..... | 504,070 | 4.97 | |
| Outstanding, December 31, 1997..... | 1,094,010 | 3.31 | |
| Granted..... | 780,363 | 17.77 | 8.11 |
| Exercised..... | (212,648) | 1.05 | |
| Forfeited..... | (56,155) | 7.66 | |
| Outstanding, December 31, 1998..... | 1,605,570 | 10.53 | |
| Granted..... | 476,555 | 15.54 | 6.44 |
| Exercised..... | (117,269) | 6.93 | |
| Forfeited..... | (83,116) | 13.53 | |
| Outstanding, December 31, 1999..... | 1,881,740 | 11.89 | |

The weighted average exercise price and weighted average fair value of options granted in 1999 whose exercise price is equal to the market price on the date of grant is \$14.61 and \$6.68, respectively.

The weighted average exercise price and weighted average fair value of options granted in 1999 whose exercise price is greater than the market price on the date of grant is \$17.50 and \$5.92, respectively.

The following table summarizes the status of outstanding stock options as of December 31, 1999:

| 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 |
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$.76 | 278,798 | 4.64 | \$.76 | 272,244 | \$.76 |
| \$.76 - \$3.81 | 177,485 | 6.61 | 3.12 | 170,931 | 3.10 |
| \$5.72 | 222,994 | 6.53 | 5.72 | 167,930 | 5.72 |
| \$13.38 | 275,525 | 9.73 | 13.38 | 0 | 0 |
| \$17.50 | 804,188 | 7.34 | 17.50 | 240,042 | 17.50 |
| \$17.75 - \$19.38 | 65,250 | 8.47 | 18.68 | 11,375 | 18.47 |
| \$19.75 | 5,000 | 8.61 | 19.75 | 1,250 | 19.75 |
| \$22.00 | 27,500 | 9.03 | 22.00 | 0 | 0 |
| \$24.75 | 20,000 | 8.63 | 24.75 | 5,000 | 24.75 |
| \$30.50 | 5,000 | 9.98 | 30.50 | 0 | 0 |
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$.76 - \$30.50 | 1,881,740 | 7.21 | \$ 11.89 | 868,772 | \$ 7.20 |
| ===== | ===== | ===== | ===== | ===== | ===== |

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 1999, 1998 and 1997, has been recognized using the intrinsic value method.

The fair value of options granted prior to the consummation of the Offering 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 50%, estimated option lives of four years, and a risk-free interest rate of 6% for 1999 and 1998. 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.

Effective upon the consummation of the Offering, certain restrictions as to the exercise of options granted under the Company's 1993 Plan expired. Prior to the consummation of the Offering, the Company recorded compensation expense for certain options granted at prices less than their fair market value ratably over seven years from the dates granted, because such options were not exercisable except upon the occurrence of certain events, including a public offering of the Company's Common Stock. Effective upon the consummation of the Offering, the Company recorded a one-time charge for stock-option compensation expense of approximately \$870, relating to the acceleration of the vesting period of certain of the Company's stock options from seven to four years.

Compensation expense charged to operations using the intrinsic value method totaled \$162, \$1,297 (including the one-time charge of \$870 referred to above), and \$873 for the years ended December 31, 1999, 1998, and 1997, 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:

| | 1999 | Pro Forma | |
|---|-----------|-----------|-----------|
| | | 1998 | 1997 |
| Net income, as reported | \$ 22,730 | \$ 15,272 | \$ 10,890 |
| Net income, under SFAS No. 123 | 21,511 | 14,423 | 10,824 |
| Diluted net income per share, as reported | 1.41 | .98 | .76 |
| Diluted net income, under SFAS No. 123 | 1.33 | .93 | .76 |

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 225,000 shares of Common Stock has been reserved for issuance under the Purchase Plan.

9. INCOME TAXES

The provision for income taxes prior to March 6, 1998 was based on the state income tax obligations of the Company as an S Corporation and was \$639 for the year ended December 31, 1997. Effective with the consummation of the Offering, the Company's S Corporation election was terminated and the Company began to account for income taxes as a C Corporation.

The 1999 and 1998 provision for income taxes and unaudited 1998 and 1997 pro forma provision for income taxes consisted of the following:

| | Years Ended December 31, | | | |
|--|--------------------------|----------|------------------|------------------|
| | 1999 | 1998 | (Pro Forma) 1998 | (Pro Forma) 1997 |
| Paid or currently payable: | | | | |
| Federal | \$ 10,373 | \$ 6,390 | \$ 7,706 | \$ 9,214 |
| State | 1,409 | 842 | 766 | 793 |
| Total current | 11,782 | 7,232 | 8,472 | 10,007 |
| Deferred: | | | | |
| Recognition of deferred tax asset upon termination of S Corporation election | -- | (4,200) | -- | -- |
| Federal | 1,983 | 795 | 1,054 | (2,890) |
| State | 170 | 78 | 105 | (154) |
| Net deferred | 2,153 | (3,327) | 1,159 | (3,044) |
| Net provision | \$ 13,935 | \$ 3,905 | \$ 9,631 | \$ 6,963 |

The components of the deferred taxes at December 31, 1999 and 1998 are as follows:

| | 1999 | 1998 |
|--|----------|----------|
| | ----- | ----- |
| Current: | | |
| Provisions for doubtful accounts | \$ 1,456 | \$ 2,197 |
| Inventory costs capitalized for tax purposes | 519 | 517 |
| Inventory and sales returns reserves | 1,221 | 1,365 |
| Deductible expenses, primarily employee-benefit related | 114 | 421 |
| Other liabilities | (1,319) | (1,319) |
| | ----- | ----- |
| Net deferred tax assets | 1,991 | 3,181 |
| | ----- | ----- |
| Non-Current: | | |
| Compensation under non-statutory stock option agreements ... | 670 | 709 |
| Accumulated depreciation | (2,249) | (395) |
| | ----- | ----- |
| Net deferred tax asset (liability) | (1,579) | 314 |
| | ----- | ----- |
| Net deferred tax asset | \$ 412 | \$ 3,495 |
| | ===== | ===== |

The reconciliation of the Company's 1999 and 1998 income tax provision and its 1998 and 1997 unaudited pro forma income tax provision to the statutory federal tax rate is as follows:

| | 1999 | 1998 | (Pro Forma) 1998 | (Pro Forma) 1997 |
|---|-------|--------|---------------------|---------------------|
| | ----- | ----- | ----- | ----- |
| Statutory tax rate | 35.0% | 35.0% | 35.0% | 35.0% |
| Recognition of deferred tax asset upon termination of S Corporation election | -- | (18.6) | -- | -- |
| 1998 S Corporation income not subject to federal income taxes ... | -- | (2.8) | -- | -- |
| State income taxes, net of federal benefit | 2.6 | 2.6 | 2.6 | 2.6 |
| Nondeductible expenses | 0.2 | 0.2 | 0.2 | 0.2 |
| Other - net | 0.2 | 0.9 | 0.9 | 1.2 |
| | ----- | ----- | ----- | ----- |
| Effective income tax rate | 38.0% | 17.3% | 38.7% | 39.0% |
| | ===== | ===== | ===== | ===== |

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 1999, 1998 or 1997. The Company made matching contributions to the employee savings element of the plan of approximately \$317 thousand, \$361 thousand, and \$171 thousand in 1999, 1998 and 1997, 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, warehouse facilities and equipment from unrelated parties with remaining terms of one to four years.

Future aggregate minimum annual lease payments under these leases at December 31, 1999 are as follows:

| Year Ending December 31 | Related Parties | Others | Total |
|--------------------------|-----------------|----------|----------|
| ----- | ----- | ----- | ----- |
| 2000..... | \$ 151 | \$ 2,490 | \$ 2,641 |
| 2001..... | 151 | 1,700 | 1,851 |
| 2002..... | 121 | 1,471 | 1,592 |
| 2003..... | 106 | 155 | 261 |
| 2004..... | 106 | -- | 106 |
| 2004 and thereafter..... | 371 | -- | 371 |

Total rent expense aggregated \$1,470, \$1,521 and \$1,398 for the years ended December 31, 1999, 1998 and 1997, respectively, under the terms of the leases described above. Such amounts included \$189, \$327 and \$311 in 1999, 1998 and 1997, 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

Other related-party transactions include the transactions summarized below. Related parties consist primarily of affiliated companies related to the Company through common ownership.

| | Year Ended December 31 | | |
|--|------------------------|-------|-------|
| | 1999 | 1998 | 1997 |
| Revenue: | | | |
| Sales of various products | \$ 1 | \$ 13 | \$ 38 |
| Sales of services to affiliated companies | 332 | -- | -- |
| Sales of property and equipment: | | | |
| Net book value | -- | -- | (14) |
| Proceeds | -- | -- | 16 |
| Costs: | | | |
| Purchase of services from affiliated companies ... | 6 | 2 | 1,280 |

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, (Computer Systems and Memory, Peripherals, Software, and Networking and Communications).

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

| | Year Ended December 31, | | |
|-------------------------------|-------------------------|------------|------------|
| | 1999 | 1998 | 1997 |
| Platform | | | |
| PC and Multi Platform | \$ 895,412 | \$ 587,100 | \$ 439,286 |
| Mac | 161,292 | 145,270 | 111,289 |
| Total | \$1,056,704 | \$ 732,370 | \$ 550,575 |
| Sales Channel | | | |
| Corporate Outbound | \$ 694,924 | \$ 390,922 | \$ 257,215 |
| Inbound Telesales | 303,707 | 312,356 | 288,113 |
| On-Line Internet | 58,073 | 29,092 | 5,247 |
| Total | \$1,056,704 | \$ 732,370 | \$ 550,575 |
| Product Mix | | | |
| Computer Systems and Memory | \$ 502,530 | \$ 319,759 | \$ 232,343 |
| Peripherals | 356,216 | 252,966 | 188,847 |
| Software | 129,944 | 102,451 | 86,991 |
| Networking and Communications | 68,014 | 57,194 | 42,394 |
| Total | \$1,056,704 | \$ 732,370 | \$ 550,575 |

Substantially, all of the Company's net sales in 1999, 1998 and 1997 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 2% in 1999, 1998 and 1997. All of the Company's assets at December 31, 1999 and 1998 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 the federal government accounted for more than 1% of total net sales in 1999. Net sales to the federal government in 1999 were \$81.4 million or 7.7% of total net sales. No single customer (including the federal government) accounted for more than 1% of total net sales in 1998 and 1997.

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 1998. 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, 1999 | June 30, 1999 | Sept. 30, 1999 | Dec. 31, 1999 |
| | (in thousands, except per share data) | | | |
| Net sales | \$ 224,979 | \$ 231,833 | \$ 282,103 | \$ 317,789 |
| Cost of sales | 197,913 | 204,034 | 247,651 | 277,760 |
| Gross profit | 27,066 | 27,799 | 34,452 | 40,029 |
| Selling, general and administrative expenses | 19,763 | 20,040 | 24,333 | 27,269 |
| Income from operations | 7,303 | 7,759 | 10,119 | 12,760 |
| Interest expense | (266) | (276) | (449) | (401) |
| Other, net | 94 | 47 | 32 | (57) |
| Income before income taxes | 7,131 | 7,530 | 9,702 | 12,302 |
| Income tax provision (1) | (2,710) | (2,862) | (3,687) | (4,676) |
| Net Income | \$ 4,421 | \$ 4,668 | \$ 6,015 | \$ 7,626 |
| Weighted average common shares outstanding: | | | | |
| Basic | \$ 15,622 | 15,627 | 15,651 | 15,697 |
| Diluted | \$ 16,068 | 16,061 | 16,078 | 16,455 |
| Earnings per common share: | | | | |
| Basic | \$.28 | \$.30 | \$.39 | \$.48 |
| Diluted | \$.28 | \$.29 | \$.37 | \$.47 |

Quarters Ended

| | March 31, 1998 | June 30, 1998 | Sept. 30, 1998 | Dec. 31, 1998 |
|---|-------------------|------------------|-------------------|------------------|
| (in thousands, except per share data) | | | | |
| Net sales | \$ 168,643 | \$ 174,349 | \$ 169,089 | \$ 220,289 |
| Cost of sales | 146,694 | 151,768 | 147,837 | 192,797 |
| | ----- | ----- | ----- | ----- |
| Gross profit | 21,949 | 22,581 | 21,252 | 27,492 |
| Selling, general and administrative expenses | 16,858 | 16,042 | 16,317 | 19,304 |
| Additional stockholder/officer compensation | 2,354 | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Income from operations | 2,737 | 6,539 | 4,935 | 8,188 |
| Interest expense | (206) | (51) | (10) | (148) |
| Other, net | 86 | 213 | 233 | 33 |
| | ----- | ----- | ----- | ----- |
| Income before income taxes | 2,617 | 6,701 | 5,158 | 8,073 |
| Income tax benefit (provision) (1) | 3,788 | (2,613) | (2,012) | (3,068) |
| | ----- | ----- | ----- | ----- |
| Net Income | \$ 6,405 | \$ 4,088 | \$ 3,146 | \$ 5,005 |
| | ===== | ===== | ===== | ===== |
| Weighted average common shares outstanding: | | | | |
| Basic | | 15,414 | 15,443 | 15,548 |
| | | ===== | ===== | ===== |
| Diluted | | 15,938 | 16,000 | 15,963 |
| | | ===== | ===== | ===== |
| Earnings per common share: | | | | |
| Basic | | \$.27 | \$.20 | \$.33 |
| | | ===== | ===== | ===== |
| Diluted | | \$.26 | \$.20 | \$.32 |
| | | ===== | ===== | ===== |
| Pro forma data: | | | | |
| Historical income before income taxes | \$ 2,617 | | | |
| Pro forma adjustment--stockholder/officer compensation in excess of the aggregate base salaries | | 2,354 | | |
| | | ----- | | |
| Pro forma income before taxes | | 4,971 | | |
| Pro forma income taxes | | 1,938 | | |
| | | ----- | | |
| Pro forma net income (2) | | \$ 3,033 | | |
| | | ===== | | |
| Pro forma weighted average shares outstanding: | | | | |
| Basic | | 14,236 | | |
| | | ===== | | |
| Diluted | | 14,835 | | |
| | | ===== | | |
| Pro forma earnings per share: | | | | |
| Basic | | \$.21 | | |
| | | ===== | | |
| Diluted | | \$.20 | | |
| | | ===== | | |

(1) For all periods prior to March 6, 1998 described herein, the Company elected to be treated as an S Corporation under Subchapter S of the Code, and applicable state laws. Effective March 6, 1998, the closing of the Company's initial public offering, the Company's S Corporation election was automatically terminated, and the Company became subject to federal and state income taxes as a C Corporation from that date forward. For the quarter ended March 31, 1998, the income tax provision includes a \$4.2 million tax benefit related to the establishment of additional deferred tax assets for future tax deductions resulting from the termination of the Company's Subchapter S Corporation status.

(2) Pro forma net income is determined by (i) eliminating stockholder/officer compensation in excess of the aggregate base salaries (\$600,000) per year and (ii) by eliminating the actual income tax provision and adding a provision for Federal and state income taxes that would have been payable by the Company if taxed under Subchapter C of the Code for all periods prior to March 6, 1998.

15. SUBSEQUENT EVENTS

On January 1, 2000, the Company announced a new holding company structure to support PC Connection's future growth and plans to expand its current business lines through internal growth and potential acquisitions.

Outstanding shares of common stock representing interests in PC Connection prior to the holding company formation were converted into shares of the new holding company on a one-for-one basis through a non-taxable transaction. Common stock shares of the new holding company were listed on the Nasdaq National Market under the symbol, "PCCC", the same exchange and symbol used by the predecessor company. The new shares hold the same voting power that shares of the predecessor company held. No additional capital stock was issued as part of the transaction. The directors and officers of the predecessor company serve as the directors and officers of the new holding company.

On January 4, 2000, the Company acquired Merisel Americas, Inc. call center operation in Marlborough, Massachusetts for approximately \$2.2 million. PC Connection offered employment opportunities to more than 100 of Merisel's highly-trained telesales account managers and support staff to join PC Connection's corporate outbound sales organization. Substantially, all such employees accepted employment with PC Connection.

PC CONNECTION, INC.

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, 1997..... | \$ 867 | \$ 1,834 | \$ -- | \$ 2,701 |
| Year Ended December 31, 1998..... | 2,701 | 1,329 | -- | 4,030 |
| Year Ended December 31, 1999..... | 4,030 | (313) | -- | 3,717 |
| Allowance for Doubtful Accounts | | | | |
| Year Ended December 31, 1997..... | 1,284 | 3,339 | (1,964) | 2,659 |
| Year Ended December 31, 1998..... | 2,659 | 6,296 | (3,834) | 5,121 |
| Year Ended December 31, 1999..... | 5,121 | 6,821 | (8,009) | 3,933 |
| Inventory Valuation Reserve | | | | |
| Year Ended December 31, 1997..... | 1,705 | 3,315 | (3,124) | 1,896 |
| Year Ended December 31, 1998..... | 1,896 | 6,017 | (5,323) | 2,590 |
| Year Ended December 31, 1999..... | 2,590 | 5,350 | (6,099) | 1,841 |

AGREEMENT FOR WHOLE SALE FINANCING

This Agreement for Wholesale Financing ("Agreement") is made as of March 25, 1998, between Deutsche Financial Services Corporation ("DFS") and PC Connection, Inc., a Delaware corporation ("Dealer"), having a principal place of business located at 6 Mill Street, Marlow, NH 03456.

1. **Extension of Credit.** Subject to the terms of this Agreement, DFS may extend credit to Dealer from time to time to purchase inventory from DFS approved vendors ("Vendors") and for other purposes. If DFS advances funds to Dealer following Dealer's execution of this Agreement, DFS will be deemed to have entered into this Agreement with Dealer, whether or not executed by DFS. DFS' decision to advance funds will not be binding until the funds are actually advanced. DFS may combine all of DFS' advances to Dealer or on Dealer's behalf, whether under this Agreement or any other agreement, and whether provided by one or more of DFS' branch offices, together with all finance charges, fees and expenses related thereto, to make one debt owed by Dealer. DFS may, at any time and without notice to Dealer, elect not to finance any inventory sold by particular Vendors who are in default of their obligations to DFS, or with respect to which DFS reasonably feels insecure. This is an agreement regarding the extension of credit, and not the provision of goods or services.
2. **Financing Terms and Statements of Transaction.** Dealer and DFS agree that certain financial terms of any advance made by DFS under this Agreement, whether regarding finance charges, other fees, maturities, curtailments or other financial terms, are not set forth herein because such terms depend, in part, upon the availability of Vendor discounts, payment terms or other incentives, prevailing economic conditions, DFS' floorplanning volume with Dealer and with Dealer's Vendors, and other economic factors which may vary over time. Dealer and DFS further agree that it is therefore in their mutual best interest to set forth in this Agreement only the general terms of Dealer's financing arrangement with DFS. Upon agreeing to finance a particular item of inventory for Dealer, DFS will send Dealer a Statement of Transaction identifying such inventory and the applicable financial terms. Unless Dealer notifies DFS in writing of any objection within fifteen (15) days after a Statement of Transaction is mailed to Dealer: (a) the amount shown on such Statement of Transaction will be an account stated; (b) Dealer will have agreed to all rates, charges and other terms shown on such Statement of Transaction; (c) Dealer will have agreed that DFS is financing the items of inventory referenced in such Statement of Transaction at Dealer's request; and (d) such Statement of Transaction will be incorporated herein by reference, will be made a part hereof as if originally set forth herein, and will constitute an addendum hereto.
3. **Grant of Security Interest.** To secure payment of all of Dealer's current and future debts to DFS, whether under this Agreement or any current or future guaranty or other agreement; Dealer grants DFS a security interest in all of Dealer's inventory, equipment, fixtures, accounts, contract rights, chattel paper, security agreements, instruments, deposit accounts, reserves, documents, and general intangibles; end all judgments, claims, insurance policies, and payments owed or made to Dealer thereon; all whether now owned or hereafter acquired, all attachments, accessories, accessions, returns, repossessions, exchanges, substitutions and replacements thereto, and all proceeds thereof. All such assets are collectively referred to herein as the "Collateral." All of such terms for which meanings are provided in the Uniform Commercial Code of the applicable state are used herein with such meanings. All Collateral financed by DFS, and all proceeds thereof, will be held in trust by Dealer for DFS, with such proceeds being payable in accordance with Section 9.
4. **Affirmative Warranties and Representations.** Dealer warrants and represents to DFS that: (a) Dealer has good title to all Collateral; (b) DFS' security interest in the Collateral financed by DFS is not now and will not become subordinate to the security interest, lien, encumbrance or claim of any person; (c) Dealer will execute all documents DFS requests to perfect and maintain DFS' security interest in the collateral; (d) Dealer will deliver to DFS immediately upon each request, and DFS may retain, each Certificate of Title or Statement of Origin issued for Collateral financed by DFS; (e) Dealer will at all times be duly organized,

existing, in good standing, qualified and licensed to do business in each state, county, or parish, in which the nature of its business or property so requires; (f) Dealer has the right and is duly authorized to enter into this Agreement; (g) Dealer's execution of this Agreement does not constitute a breach of any agreement to which Dealer is now or hereafter becomes bound; (h) there are and will be no actions or proceedings pending or threatened against Dealer which might result in any material adverse change in Dealer's financial or business condition or which might in any way materially adversely affect any of Dealer's assets, except as set forth on Exhibit B, attached hereto; (i) Dealer will maintain the Collateral in good condition and repair; (j) Dealer has duly filed and will duly file all tax returns required by law; (k) Dealer has paid and will pay when due all taxes, levies, assessments and governmental charges of any nature; (l) Dealer will keep and maintain all of its books and records pertaining to the Collateral at its principal place of business designated in this Agreement; (m) Dealer will promptly supply DFS with such information concerning it or any guarantor as DFS hereafter may reasonably request; (n) all Collateral will be kept at Dealer's principal place of business listed above, and such other locations, if any, of which Dealer has notified DFS in writing or as listed on any current or future Exhibit "A" attached hereto which written notice(s) to DFS and Exhibit A(s) are incorporated herein by reference; (o) Dealer will give DFS thirty (30) days prior written notice of any change in Dealer's identity, name, form of business organization, ownership, management, principal place of business, Collateral locations or other business locations, and before moving any books and records to any other location, unless due to circumstances (e.g. termination of a manager) under which such notice would be impractical, in which case Dealer shall, provide DFS with notice as soon as possible; (p) Dealer will observe and perform all matters required by any lease, license, concession or franchise forming part of the Collateral in order to maintain all the rights of DFS thereunder; (q) Dealer will advise DFS of the commencement of material legal proceedings against Dealer or any guarantor; and (r) Dealer will comply with all applicable laws and will conduct its business in a manner which preserves and protects the Collateral and the earnings and incomes thereof.

5. Negative Covenants. Dealer will not at any time (without DFS' prior written consent): (a) other than in the ordinary course of its business, sell, lease or otherwise dispose of or transfer any of its assets; (b) rent, lease, demonstrate, consign, or use any Collateral financed by DFS; or (c) merge or consolidate with another entity.
6. Insurance. Dealer will immediately notify DFS of any loss, theft or damage to any Collateral. Dealer will keep the Collateral insured for its full insurable value under an "all risk" property insurance policy with a company acceptable to DFS, naming DFS as a lender loss-payee or mortgagee and containing standard lender's loss payable and termination provisions. Dealer will provide DFS with written evidence of such property insurance coverage and lender's loss-payee or mortgagee endorsement.
7. Financial Statements. Dealer will deliver to DFS: (a) within ninety (90) days after the end of each of Dealer's fiscal years, a reasonably detailed balance sheet as of the last day of such fiscal year and a reasonably detailed income statement covering Dealer's operations for such fiscal year, in a form satisfactory to DFS; (b) within forty-five (45) days after the end of each of Dealer's fiscal quarters, a reasonably detailed balance sheet as of the last day of such quarter and an income statement covering Dealer's operations for such quarter, in a form satisfactory to DFS; and (c) within ten (10) days after request therefor by DFS, any other report requested by DFS relating to the Collateral or the financial condition or Dealer. Dealer warrants and represents to DFS that all financial statements and information relating to Dealer or any guarantor which have been or may hereafter be delivered by Dealer or any guarantor are true and correct and have been and will be prepared in accordance with generally accepted accounting principles consistently applied and, with respect to such previously delivered statements or information, there has been no material adverse change in the financial or business condition of Dealer or any guarantor since the submission to DFS, either as of the date of delivery, or, if different, the date specified therein, and Dealer acknowledges DFS' reliance thereon.
8. Reviews. Dealer grants DFS an irrevocable license to enter Dealer's business locations, with accompaniment by Dealer, during normal business hours without

notice to Dealer to: (a) account for and inspect all Collateral; (b) verify Dealer's compliance with this Agreement; and (c) examine and copy Dealer's books and records related to the Collateral.

9. Payment Terms. Dealer will immediately pay DFS the principal indebtedness owed DFS on each item of Collateral financed by DFS (as shown on the Statement of Transaction identifying such Collateral) on the earliest occurrence of any of the following events: (a) when such Collateral is lost, stolen or damaged; (b) for Collateral financed under Pay-As-Sold ("PAS") terms (as shown on the Statement of Transaction identifying such Collateral), when such Collateral is sold, transferred, rented, leased, otherwise disposed of or matured; (c) in strict accordance with any curtailment schedule for such Collateral (as shown on the Statement of Transaction identifying such Collateral); (d) for Collateral financed under Scheduled Payment Program ("SPP") terms (as shown on the Statement of Transaction identifying such Collateral), in strict accordance with the installment payment schedule; and (e) when otherwise required under the terms of any financing program agreed to in writing by the parties. Regardless of the SPP terms pertaining to any Collateral financed by DFS, if DFS determines that the current outstanding debt which Dealer owes to DFS exceeds the aggregate wholesale invoice price of such Collateral in Dealer's possession, Dealer will immediately upon demand pay DFS the difference between such outstanding debt and the aggregate wholesale invoice price of such Collateral. If Dealer from time to time is required to make immediate payment to DFS of any past due obligation discovered during any Collateral audit, or at any other time, Dealer agrees that acceptance of such payment by DFS shall not be construed to have waived or amended the terms of its financing program. The proceeds of any Collateral received by Dealer will be held by Dealer in trust for DFS' benefit, for application as provided in this Agreement. Dealer will send all payments to DFS' branch office(s) responsible for Dealer's account. DFS may apply: (i) payments to reduce finance charges first and then principal, regardless of Dealer's instructions; and (ii) principal payments to the oldest (earliest) invoice for Collateral financed by DFS, but, in any event, all principal payments will first be applied to such Collateral which is sold, lost, stolen, damaged, rented, leased, or otherwise disposed of or unaccounted for. Any third party discount, rebate, bonus or credit granted to Dealer for any Collateral will not reduce the debt Dealer owes DFS until DFS has received payment therefor in cash. Dealer will: (1) pay DFS even if any Collateral is defective or fails to conform to any warranties extended by any third party; (2) not assert against DFS any claim or defense Dealer has against any third party; and (3) indemnify and hold DFS harmless against all claims and defenses asserted by any buyer of the Collateral relating to the condition of, or any representations regarding, any of the Collateral. Dealer waives all rights of offset Dealer may have against DFS.
10. Calculation of Charges. Dealer will pay finance charges to DFS on the outstanding principal debt which Dealer owes DFS for each item of Collateral financed by DFS at the rate(s) shown on the Statement of Transaction identifying such Collateral, unless Dealer objects thereto as provided in Section 2. The finance charges attributable to the rate shown on the Statement of Transaction will: (a) be computed based on a 360 day year; (b) be calculated by multiplying the Daily Charge (as defined below) by the actual number of days in the applicable billing period; and (c) accrue from the invoice date of the Collateral identified on such Statement of Transaction until DFS receives full payment in good funds of the principal debt Dealer owes DFS for each item of such Collateral in accordance with DFS' payment recognition policy and DFS applies such payment to Dealer's principal debt in accordance with the terms of this Agreement. The "Daily Charge" is the product of the Daily Rate (as defined below) multiplied by the Average Daily Balance (as defined below). The "Daily Rate" is the quotient of the annual rate shown on the Statement of Transaction divided by 360, or the monthly rate shown on the Statement of Transaction divided by 30. The "Average Daily Balance" is the quotient of (i) the sum of the outstanding principal debt owed DFS on each day of a billing period for each item of Collateral identified on a Statement of Transaction, divided by (ii) the actual number of days in such billing period. Dealer will also pay DFS \$100 for each check returned unpaid for insufficient funds (an "NSF check") (such \$100 payment repays DFS' estimated administrative costs; it does not waive the default caused by the NSF check). The annual percentage rate of the finance charges relating to any item of Collateral financed by DFS will be calculated from the invoice date of such Collateral, regardless of any period during which any finance charge subsidy shall be paid or payable by any third party. Dealer

acknowledges that DFS intends to strictly conform to the applicable usury laws governing this Agreement. Regardless of any provision contained herein or in any other document executed or delivered in connection herewith or therewith, DFS shall never be deemed to have contracted for, charged or be entitled to receive, collect or apply as interest on this Agreement (whether termed interest herein or deemed to be interest by judicial determination or operation of law), any amount in excess of the maximum amount allowed by applicable law, and, if DFS ever receives, collects or applies as interest any such excess, such amount which would be excessive interest will be applied first to the reduction of the unpaid principal balances of advances under this Agreement, and, second, any remaining excess will be paid to Dealer. In determining whether or not the interest paid or payable under any specific contingency exceeds the highest lawful rate, Dealer and DFS shall, to the maximum extent permitted under applicable law: (A) characterize any non-principal payment (other than payments which are expressly designated as interest payments hereunder) as an expense or fee rather than as interest; (B) exclude voluntary prepayments and the effect thereof; and (C) spread the total amount of interest throughout the entire term of this Agreement so that the interest rate is uniform throughout such term.

11. Billing Statement. DFS will send Dealer a monthly billing statement identifying all charges due on Dealer's account with DFS. The charges specified on each billing statement will be: (a) due and payable in full immediately on receipt; and (b) an account stated, unless DFS receives Dealer's written objection thereto within 15 days after it is mailed to Dealer. If DFS does not receive, by the 25th day of any given month, payment of all charges accrued to Dealer's account with DFS during the immediately preceding month, Dealer will (to the extent allowed by law) pay DFS a late fee ("Late Fee") equal to the greater of \$5 or 5% of the amount of such finance charges (payment of the Late Fee does not waive the default caused by the late payment). DFS may adjust the billing statement at any time to conform to applicable law and this Agreement.
12. Default. Dealer will be in default under this Agreement if: (a) Dealer breaches any terms, warranties or representations contained herein, in any Statement of Transaction to which Dealer has not objected as provided in Section 2, or in any other agreement between DFS and Dealer; (b) any guarantor of Dealer's debts to DFS breaches any terms, warranties or representations contained in any guaranty or other agreement between the guarantor and DFS; (c) any representation, statement, report or certificate made or delivered by Dealer or any guarantor to DFS is not accurate when made; (d) Dealer fails to pay any portion of Dealer's debts to DFS when due and payable hereunder or under any other agreement between DFS and Dealer; (e) Dealer abandons any Collateral; (f) Dealer or any guarantor is or becomes in default in the payment of any debt owed to any third party; (g) a money judgment issues against Dealer or any guarantor that materially affects Dealer or guarantor, as applicable; (h) an attachment, sale or seizure issues or is executed against any assets of Dealer or of any guarantor; (i) the undersigned dies while Dealer's business is operated as a sole proprietorship, any general partner dies while Dealer's business is operated as a general or limited partnership, or any member dies while Dealer's business is operated as a limited liability company, as applicable; (j) any guarantor dies; (k) Dealer or any guarantor shall cease existence as a corporation, partnership, limited liability company or trust, as applicable; (l) Dealer or any guarantor ceases or suspends business; (m) Dealer, any guarantor or any member while Dealer's business is operated as a limited liability company, as applicable, makes a general assignment for the benefit of creditors; (n) Dealer, any guarantor or any member while Dealer's business is operated as a limited liability company, as applicable, becomes insolvent or voluntarily or involuntarily becomes subject to the Federal Bankruptcy Code, any state insolvency law or any similar law; (o) any receiver is appointed for any assets of Dealer, any guarantor or any member while Dealer's business is operated as a limited liability company, as applicable; (p) any guaranty of Dealer's debts to DFS is terminated; (q) Dealer loses any franchise, permission, license or right to sell or deal in any Collateral which DFS finances; (r) Dealer or any guarantor misrepresents Dealer's or such guarantor's financial condition or organizational structure; or (s) DFS determines in good faith that it is insecure with respect to any of the Collateral or the payment of any part of Dealer's obligation to DFS.
13. Rights of DFS Upon Default. In the event of a default:
 - (a) DFS may at any time at DFS' election, without notice or demand to Dealer, do any one or more of the following: declare all or any part of the debt

Dealer owes DFS immediately due and payable, together with all costs and expenses of DFS' collection activity, including, without limitation, all reasonable attorneys' fees; exercise any or all rights under applicable law (including, without limitation, the right to possess, transfer and dispose of the Collateral); and/or cease extending any additional credit to Dealer (DFS' right to cease extending credit shall not be construed to limit the discretionary nature of this credit facility).

- (b) Dealer will segregate and keep the Collateral in trust for DFS, and in good order and repair, and will not sell, rent, lease, consign, otherwise dispose of or use any Collateral, nor further encumber any Collateral.
- (c) Upon DFS' oral or written demand, Dealer will immediately deliver the Collateral to DFS, in good order and repair, at a place specified by DFS, together with all related documents; or DFS may, in DFS' sole discretion and without notice or demand to Dealer, take immediate possession of the Collateral together with all related documents.
- (d) DFS may, without notice, apply a default finance charge to Dealer's outstanding principal indebtedness equal to the default rate specified in Dealer's financing program with DFS, if any, or if there is none so specified, at the lesser of 3% per annum above the rate in effect immediately prior to the default, or the highest lawful contract rate of interest permitted under applicable law.

All of DFS' rights and remedies are cumulative. DFS' failure to exercise any of DFS' rights or remedies hereunder will not waive any of DFS' rights or remedies as to any past, current or future default.

- 14. Sale of Collateral. Dealer agrees that if DFS conducts a private sale of any Collateral by requesting bids from 10 or more dealers or distributors in that type of Collateral, any sale by DFS of such Collateral in bulk or in parcels within 120 days of: (a) DFS' taking possession and control of such Collateral; or (b) when DFS is otherwise authorized to sell such Collateral; whichever occurs last, to the bidder submitting the highest cash bid therefor, is a commercially reasonable sale of such Collateral under the Uniform Commercial Code. Dealer agrees that the purchase of any Collateral by a Vendor, as provided in any agreement between DFS and the Vendor, is a commercially reasonable disposition and private sale of such Collateral under the Uniform Commercial Code, and no request for bids shall be required. Dealer further agrees that 7 or more days prior written notice will be commercially reasonable notice of any public or private sale (including any sale to a Vendor). Dealer irrevocably waives any requirement that DFS retain possession and not dispose of any Collateral until after an arbitration hearing, arbitration award, confirmation, trial or final judgment. If DFS disposes of any such Collateral other than as herein contemplated, the commercial reasonableness of such disposition will be determined in accordance with the laws of the state governing this Agreement.
- 15. Power of Attorney. Dealer grants DFS an irrevocable power of attorney: (a) upon the occurrence of a default to: (i) execute or endorse on Dealer's behalf any checks pertaining to the Collateral, or (ii) initiate and settle any insurance claim pertaining to the Collateral; and (b) at any time to: (i) supply any omitted information and correct errors in any documents between DFS and Dealer, (ii) execute or endorse on Dealer's behalf any financing statements or instruments pertaining to the Collateral; and (iii) do anything to preserve and protect the Collateral and DFS' rights and interest therein.
- 16. Information. DFS may provide to any third party any credit information on Dealer that DFS may from time to time possess. DFS may obtain from any Vendor any credit, financial or other information regarding Dealer that such Vendor may from time to time possess.
- 17. Termination. Either party may terminate this Agreement at any time by written notice received by the other party. If DFS terminates this Agreement, Dealer agrees that if Dealer: (a) is not in default hereunder, 30 days prior notice of termination is reasonable and sufficient (although this provision shall not be construed to mean that shorter periods may not, in particular circumstances, also be reasonable and sufficient); or (b) is in default hereunder, no prior notice of termination is required. Dealer will not be relieved from any obligation to DFS arising out of DFS' advances or commitments made before the effective termination date of this Agreement. DFS will retain all of its rights, interests and remedies

hereunder until Dealer has paid all of Dealer's debts to DFS. All waivers set forth within this Agreement will survive any termination of this Agreement.

18. **Binding Effect.** Dealer cannot assign its interest in this Agreement without DFS' prior written consent, although DFS may assign or participate DFS' interest, in whole or in part, without Dealer's consent. This Agreement will protect and bind DFS' and Dealer's respective heirs, representatives, successors and assigns.
19. **Notices.** Except as otherwise stated herein, all notices, arbitration claims, responses, requests and documents will be sufficiently given or served if mailed or delivered: (a) to Dealer at Dealer's principal place of business specified above; and (b) to DFS at 655 Maryville Centre Drive, St. Louis, Missouri 63141--5832, Attention: General Counsel, or such other address as the parties may hereafter specify in writing.
20. **NO ORAL AGREEMENTS. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBTS ARE NOT ENFORCEABLE. TO PROTECT DEALER AND DFS FROM MISUNDERSTANDING OR DISAPPOINTMENT, ALL AGREEMENTS COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN THE PARTIES, EXCEPT AS SPECIFICALLY PROVIDED HEREIN OR AS THE PARTIES MAY LATER AGREE IN WRITING TO MODIFY IT. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.**
21. **Other Waivers.** Dealer irrevocably waives notice of: DFS' acceptance of this Agreement, presentment, demand, protest, nonpayment, nonperformance, and dishonor. Dealer and DFS irrevocably waive all rights to claim any punitive and/or exemplary damages.
22. **Severability.** If any provision of this Agreement or its application is invalid or unenforceable, the remainder of this Agreement will not be impaired or affected and will remain binding and enforceable.
23. **Supplement.** If Dealer and DFS have heretofore executed other agreements in connection with all or any part of the Collateral, this Agreement shall supplement each and every other agreement previously executed by and between Dealer and DFS, and in that event this Agreement shall neither be deemed a novation nor a termination of such previously executed agreement nor shall execution of this Agreement be deemed a satisfaction of any obligation secured by such previously executed agreement.
24. **Receipt of Agreement.** Dealer acknowledges that it has received a true and complete copy of this Agreement. Dealer acknowledges that it has read and understood this Agreement. Notwithstanding anything herein to the contrary: (a) DFS may rely on any facsimile copy, electronic data transmission or electronic data storage of this Agreement, any Statement of Transaction, billing statement, invoice from a Vendor, financial statements or other reports, and (b) such facsimile copy, electronic data transmission or electronic data storage will be deemed an original, and the best evidence thereof for all purposes, including, without limitation, under this Agreement or any other agreement between DFS and Dealer, and for all evidentiary purposes before any arbitrator, court or other adjudicatory authority.
25. **Miscellaneous.** Time is of the essence regarding Dealer's performance of its obligations to DFS notwithstanding any course of dealing or custom on DFS' part to grant extensions of time. Dealer's liability under this Agreement is direct and unconditional and will not be affected by the release or nonperfection of any security interest granted hereunder. DFS will have the right to refrain from or postpone enforcement of this Agreement or any other agreements between DFS and Dealer without prejudice and the failure to strictly enforce these agreements will not be construed as having created a course of dealing between DFS and Dealer contrary to the specific terms of the agreements or as having modified, released or waived the same. The express terms of this Agreement will not be modified by any course of dealing, usage of trade, or custom of trade which may deviate from the terms hereof. If Dealer fails to pay any taxes, fees or other obligations which may impair DFS' interest in the Collateral, or fails to keep the Collateral insured, DFS may, but shall not be required to, pay such taxes, fees or obligations and pay the cost to insure the Collateral, and the amounts paid will be: (a) an additional debt owed by Dealer to DFS, which shall be subject to finance charges as

provided herein; and (b) due and payable immediately in full. Dealer agrees to pay all of DFS' reasonable attorneys' fees and expenses incurred by DFS in enforcing DFS' rights hereunder. The Section titles used in this Agreement are for convenience only and do not define or limit the contents of any Section.

26. BINDING ARBITRATION.

- 26.1 Arbitrable Claims. Except as otherwise specified below, all actions, disputes, claims and controversies under common law, statutory law or in equity of any type or nature whatsoever (including, without limitation, all torts, whether regarding negligence, breach of fiduciary duty, restraint of trade, fraud, conversion, duress, interference, wrongful replevin, wrongful sequestration, fraud in the inducement, usury or any other tort, all contract actions, whether regarding express or implied terms, such as implied covenants of good faith, fair dealing, and the commercial reasonableness of any Collateral disposition, or any other contract claim, all claims of deceptive trade practices or lender liability, and all claims questioning the reasonableness or lawfulness of any act), whether arising before or after the date of this Agreement, and whether directly or indirectly relating to: (a) this Agreement and/or any amendments and addenda hereto, or the breach, invalidity or termination hereof; (b) any previous or subsequent agreement between DFS and Dealer; (c) any act committed by DFS or by any parent company, subsidiary or affiliated company of DFS (the "DFS Companies"), or by any employee, agent, officer or director of a DFS Company whether or not arising within the scope and course of employment or other contractual representation of the DFS Companies provided that such act arises under a relationship, transaction or dealing between DFS and Dealer; and/or (d) any other relationship, transaction or dealing between DFS and Dealer (collectively the "Disputes"), will be subject to and resolved by binding arbitration.
- 26.2 Administrative Body. All arbitration hereunder will be conducted in accordance with the Commercial Arbitration Rules of The American Arbitration Association ("AAA"). If the AAA is dissolved, disbanded or becomes subject to any state or federal bankruptcy or insolvency proceeding, the parties will remain subject to binding arbitration which will be conducted by a mutually agreeable arbitral forum. The parties agree that all arbitrator(s) selected will be attorneys with at least five (5) years secured transactions experience. The arbitrator(s) will decide if any inconsistency exists between the rules of any applicable arbitral forum and the arbitration provisions contained herein. If such inconsistency exists, the arbitration provisions contained herein will control and supersede such rules. The site of all arbitration proceedings will be in the Division of the Federal Judicial District in which AA maintains a regional office that is closest to Dealer.
- 26.3 Discovery. Discovery permitted in any arbitration proceeding commenced hereunder is limited as follows. No later than thirty (30) days after the filing of a claim for arbitration, the parties will exchange detailed statements setting forth the facts supporting the claim(s) and all defenses to be raised during the arbitration, and a list of all exhibits and witnesses. No later than twenty-one (21) days prior to the arbitration hearing, the parties will exchange a final list of all exhibits and all witnesses, including any designation of any expert witness(es) together with a summary of their testimony; a copy of all documents and a detailed description of any property to be introduced at the hearing. Under no circumstances will the use of interrogatories, requests for admission, requests for the production of documents or the taking of depositions be permitted. However, in the event of the designation of any expert witness(es), the following will occur: (a) all information and documents relied upon by the expert witness(es) will be delivered to the opposing party, (b) the opposing party will be permitted to depose the expert witness(es), (c) the opposing party will be permitted to designate rebuttal expert witness(es), and (d) the arbitration hearing will be continued to the earliest possible date that enables the foregoing limited discovery to be accomplished.
- 26.4 Exemplary or Punitive Damages. The Arbitrator(s) will not have the authority to award exemplary or punitive damages.
- 26.5 Confidentiality of Awards. All arbitration proceedings, including testimony or evidence at hearings, will be kept confidential, although any award or order rendered by the arbitrator(s) pursuant to the terms of this Agreement

may be entered as a judgment or order in any state or federal court and may be confirmed within the federal judicial district which includes the residence of the party against whom such award or order was entered. This Agreement concerns transactions involving commerce among the several states. The Federal Arbitration Act, Title 9 U.S.C. Sections 1 et seq., as amended ("FAA") will govern all arbitration(s) and confirmation proceedings hereunder.

- 26.6 Prejudgment and Provisional Remedies. Nothing herein will be construed to prevent DFS' or Dealer's use of bankruptcy, receivership, injunction, repossession, replevin, claim and delivery, sequestration, seizure, attachment, foreclosure, dation and/or any other prejudgment or provisional action or remedy relating to any Collateral for any current or future debt owed by either party to the other. Any such action or remedy will not waive DFS' or Dealer's right to compel arbitration of any Dispute.
- 26.7 Attorneys' Fees. If either Dealer or DFS brings any other action for judicial relief with respect to any Dispute (other than those set forth in Section 26.6), the party bringing such action will be liable for and immediately pay all of the other party's costs and expenses (including attorneys' fees) incurred to stay or dismiss such action and remove or refer such Dispute to arbitration. If either Dealer or DFS brings or appeals an action to vacate or modify an arbitration award and such party does not prevail, such party will pay all costs and expenses, including attorneys' fees, incurred by the other party in defending such action. Additionally, if one party sues the other party or institutes any arbitration claim or counterclaim against such other party in which such other party is the prevailing party, the party instituting such claim will pay all costs and expenses (including attorneys' fees) incurred by the prevailing party in the course of defending such action or proceeding.
- 26.8 Limitations. Any arbitration proceeding must be instituted: (a) with respect to any Dispute for the collection of any debt owed by either party to the other, within two (2) years after the date the last payment was received by the instituting party; and (b) with respect to any other Dispute, within two (2) years after the date the incident giving rise thereto occurred, whether or not any damage was sustained or capable of ascertainment or either party knew of such incident. Failure to institute an arbitration proceeding within such period will constitute an absolute bar and waiver to the institution of any proceeding, whether arbitration or a court proceeding, with respect to such Dispute.
- 26.9 Survival After Termination. The agreement to arbitrate will survive the termination of this Agreement.
27. INVALIDITY/UNENFORCEABILITY OF BINDING ARBITRATION. IF THIS AGREEMENT IS FOUND TO BE NOT SUBJECT TO ARBITRATION, ANY LEGAL PROCEEDING WITH RESPECT TO ANY DISPUTE WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. DEALER AND DFS WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH PROCEEDING.
28. Governing Law. Dealer acknowledges and agrees that this and all other agreements between Dealer and DFS have been substantially negotiated, and will be substantially performed, in the state of Massachusetts. Accordingly, Dealer agrees that all Disputes will be governed by, and construed in accordance with, the laws of such state, except to the extent inconsistent with the provisions of the FAA which shall control and govern all arbitration proceedings hereunder.

IN WITNESS WHEREOF, Dealer and DFS have executed this Agreement as of the date first set forth hereinabove.

THIS CONTRACT CONTAINS BINDING ARBITRATION, JURY WAIVER AND PUNITIVE DAMAGE WAIVER PROVISIONS.

DEUTSCHE FINANCIAL SERVICES CORPORATION

PC CONNECTION, INC.,
a Delaware corporation

By: _____
Print Name: _____
Title: _____

By: /s/ Jack L. Ferguson

Print Name: Jack L. Ferguson

Title: Treasurer

ATTEST:

/s/ Steve Markiewicz

(Assistant) Secretary
Print Name: Steve Markiewicz

SECRETARY'S CERTIFICATE OF RESOLUTION

I certify that I am the Secretary or Assistant Secretary of the corporation named below, and that the following completely and accurately sets forth certain resolutions of the Board of Directors of the corporation adopted at a special meeting thereof held on due notice (and with shareholder approval, if required by law), at which meeting there was present a quorum authorized to transact the business described below, and that the proceedings of the meeting were in accordance with the certificate of incorporation, charter and by-laws of the corporation, and that they have not been revoked, annulled or amended in any manner whatsoever.

Upon motion duly made and seconded, the following resolution was unanimously adopted after full discussion:

"RESOLVED, That the several officers, directors, and agents of this corporation, or any one or more of them, are hereby authorized and empowered on behalf of this corporation: to obtain financing from Deutsche Financial Services Corporation ("DFS") in such amounts and on such terms as such officers, directors or agents deem proper; to enter into financing, security, pledge and other agreements with DFS relating to the terms upon which such financing may be obtained and security and/or other credit support is to be furnished by this corporation therefor; from time to time to supplement or amend any such agreements; and from time to time to pledge, assign, mortgage, grant security interests, and otherwise transfer, to DFS as collateral security for any obligations of this corporation to DFS, whenever and however arising, any assets of this corporation, whether now owned or hereafter acquired; the Board of Directors hereby ratifying, approving and confirming all that any of said officers, directors or agents have done or may do with respect to the foregoing."

IN WITNESS WHEREOF, I have executed and affixed the seal of the corporation on the date stated below.

Dated: 3/27, 1998

/s/ Steve Markiewicz

(Assistant) Secretary

PC Connection, Inc., a Delaware Corporation
Corporate Name

(SEAL)

EXHIBIT A
COLLATERAL LOCATIONS

EXHIBIT B

EXHIBIT B

AMENDMENT TO AGREEMENT FOR WHOLESALE FINANCING

This Amendment to Agreement for Wholesale Financing is made to that certain Agreement for Wholesale Financing entered into by and between PC Connection, Inc., a Delaware corporation ("Dealer") and Deutsche Financial Services Corporation ("DFS") on March 25, 1998, as amended ("Agreement").

FOR VALUE RECEIVED, Dealer and DFS agree to amend the Agreement as follows:

1. Dealer and DFS agree to amend paragraph 3 of the Agreement to provide as follows:

"3. To secure payment of all of Dealer's current and future debts to DFS, whether under this Agreement or any current or future guaranty or other agreement, Dealer grants DFS a security interest in all Dealer's:

(a) inventory and equipment, manufactured or sold by or bearing any trademark or trade name of Compaq Computer Corporation, Acer America Corporation, Apple Computer, Inc., Digital Equipment Corporation, Hewlett-Packard Company, Hitachi Sales Corporation of America, Power Computing, Texas Instruments Incorporated, Toshiba America Information Systems, Inc., NEC Technologies, Inc., Oki America, Inc. (Okidata division), Canon U.S.A., Inc., Packard Bell Electronics, Inc., Epson America, Inc., Xerox Corporation, Tektronix, Inc., and Toshiba America Information Systems, Inc. or any of their subsidiaries or affiliated companies, whether now owned or hereafter acquired, and all attachments, accessories, accessions, returns, repossessions, exchanges, substitutions and replacements thereto, and all proceeds thereof; and

(b) rebates, discounts, credits and incentive payments, now or hereafter due Dealer, relating to any of the above described inventory and equipment, and all proceeds thereof.

All such assets are collectively referred to herein as the 'Collateral.' All of such terms for which meanings are provided in the Uniform Commercial Code are used herein with such meanings. All Collateral financed by DFS, and all proceeds thereof, will be held in trust by Dealer for DFS, with such proceeds being payable in accordance with this Agreement."

2. Dealer and DFS agree to amend paragraph number 9 of the Agreement to provide as follows:

"9. Payment Terms/Paydown. Dealer will immediately pay DFS the principal indebtedness owed DFS on each item of Collateral financed by DFS (as shown on the Statement of Transaction identifying such Collateral) on the earliest occurrence of any of the following events: (a) when such Collateral is lost, stolen or damaged; (b) for Collateral financed under Pay-As-Sold (PAS") terms (as shown on the Statement of Transaction identifying such Collateral), when such Collateral is sold,

any warranties extended by any third party; (2) not assert against DFS any claim or defense Dealer has against any third party; and (3) indemnify and hold DFS harmless against all claims and defenses asserted by any buyer of the Collateral relating to the condition of, or any representations regarding, any of the Collateral. Dealer waives all rights of offset Dealer may have against DFS."

3. DFS and Dealer agree that the following paragraph is incorporated into the Agreement as if fully and originally set forth therein:

"7.1 Financial Covenants. Dealer will at all times maintain:

(a) a Tangible Net Worth and Subordinated Debt in the combined amount of not less than Eleven Million Dollars (\$11,000,000.00); and

(b) a ratio of Debt minus Subordinated Debt to Tangible Net Worth and Subordinated Debt, measured quarterly, of not more than the ratio shown below during the period corresponding thereto:

| Period ----- | Ratio ----- |
|---------------------------------------|----------------|
| First quarter of each fiscal year | 3.25 to 1.0 |
| Second quarter of each fiscal year | 3.25 to 1.0 |
| Third quarter of each fiscal year | 3.25 to 1.0 |
| Fourth quarter of each fiscal year | 4.00 to 1.0 |

For purposes of this paragraph: (i) 'Tangible Net Worth' means the book value of Dealer's assets less liabilities, excluding from such assets all Intangibles; (ii) 'Intangibles' means and includes general intangibles (as that term is defined in the Uniform Commercial Code); accounts receivable and advances due from officers, directors, employees, stockholders and affiliates; good will; covenants not to compete; the excess of cost over book value of acquired assets; franchise fees; organizational costs; finance reserves held for recourse obligations; capitalized research and development costs; and such other similar items as DFS may from time to time determine in DFS' sole discretion; (iii) 'Debt' means all of Dealer's liabilities and indebtedness for borrowed money of any kind and nature whatsoever, whether direct or indirect, absolute or contingent, and including obligations under capitalized leases, guaranties, or with respect to which Dealer has pledged assets to secure performance, whether or not direct recourse liability has been assumed by Dealer except that accounts payable corresponding to intransit inventory shall not be included in the definition of Debt; and (iv) 'Subordinated Debt' means all of Dealer's Debt which is subordinated to the payment of Dealer's liabilities to DFS by an agreement in form and substance satisfactory to DFS. The foregoing terms shall be

transferred, rented, leased, otherwise disposed of or matured; (c) in strict accordance with any curtailment schedule for such Collateral (as shown on the Statement of Transaction identifying such Collateral); (d) for Collateral financed under Scheduled Parent Program ("SPP") terms (as shown on the Statement of Transaction identifying such Collateral), in strict accordance with the installment payment schedule; and (e) when otherwise required under the terms of any financing program agreed to in writing by the parties. Dealer will forward to DFS by the 15th day of each month a Collateral Summary Report (as defined below) dated as of the last day of the prior month. Regardless of the SPP terms pertaining to any Collateral financed by DFS, and notwithstanding any scheduled payments made by Dealer after the Determination Date (as defined below), if DFS determines, after reviewing the Collateral Summary Report, after conducting an inspection of the Collateral or otherwise, that (i) the total current outstanding indebtedness owed by Dealer to DFS as of the date of the Collateral Summary Report, inspection or any other date on which a paydown is otherwise required hereunder, as applicable (the 'Determination Date'), exceeds (ii) the Collateral Liquidation Value (as defined below) as of the Determination Date, Dealer will immediately upon demand pay DFS the difference between (i) Dealer's total current outstanding indebtedness owed to DFS as of the Determination Date, and (ii) the Collateral Liquidation Value as of the Determination Date.

The term 'Collateral Summary Report' is defined herein to mean a report compiled by Dealer specifying the total aggregate wholesale invoice price of all of Dealer's inventory financed by DFS that is unsold and in Dealer's possession and control as of the date of such Report to the extent DFS has a first priority, fully perfected security interest therein.

The term 'Collateral Liquidation Value' is defined herein to mean one hundred percent (100%) of the total aggregate wholesale invoice price of all of Dealer's inventory financed by DFS that is unsold and in Dealer's possession and control as of the date of the Collateral Summary Report and to the extent DFS has a first priority, fully perfected security interest therein. If Dealer from time to time is required to make immediate payment to DFS of any past due obligation discovered during any Collateral audit, upon review of a Collateral Summary Report or at any other time, Dealer agrees that acceptance of such payment by DFS shall not be construed to have waived or amended the terms of its financing program. The proceeds of any Collateral received by Dealer will be held by Dealer in trust for DFS' benefit, for application as provided in this Agreement. Dealer will send all payments to DFS' branch office(s) responsible for Dealer's account. DFS may apply: (i) payments to reduce finance charges first and then principal, regardless of Dealer's instructions; and (ii) principal payments to the oldest (earliest) invoice for Collateral financed by DFS, but, in any event, all principal payments will first be applied to such Collateral which is sold, lost, stolen, damaged, rented, leased, or otherwise disposed of or unaccounted for. Any third party discount, rebate, bonus or credit granted to Dealer for any Collateral will not reduce the debt Dealer owes DFS until DFS has received payment therefor in cash. Dealer will (1) pay DFS even if any Collateral is defective or fails to conform to

determined in accordance with generally accepted accounting principles consistently applied, and, if applicable, on a consolidated basis."

All other terms as they appear in the Agreement, to the extent consistent with the foregoing, are ratified and remain unchanged and in full force and effect.

IN WITNESS WHEREOF, Dealer and DFS have executed this Amendment to Agreement for Wholesale Financing this 25th day of March, 1998.

PC CONNECTION, INC.,
a Delaware corporation

ATTEST:
/s/ [ILLEGIBLE]

(Assistant) Secretary

By: /s/ Jack L. Ferguson

Title: Treasurer

DEUTSCHE FINANCIAL SERVICES CORPORATION

By: _____
Title: _____

AMENDMENT TO AGREEMENT FOR WHOLESALE FINANCING

This Amendment to Agreement for Wholesale Financing is made to that certain Agreement for Wholesale Financing entered into by and between PC Connection, Inc., a Delaware corporation ("Dealer") and Deutsche Financial Services Corporation (DFS) on March 25, 1998, as amended ("Agreement").

FOR VALUE RECEIVED, Dealer and DFS agree to amend the Agreement as follows:

1. Dealer and DFS agree to amend paragraph 3 of the Agreement to provide as follows:

"3. To secure payment of all of Dealer's current and future debts to DFS, whether under this Agreement or any current or future guaranty or other agreement, Dealer grants DFS a security interest in all Dealer's:

(a) inventory and equipment, manufactured or sold by or bearing any trademark or trade name of Compaq Computer Corporation, Acer America Corporation, Apple Computer, Inc., Digital Equipment Corporation, Hewlett-Packard Company, Hitachi Sales Corporation of America, Power Computing, Texas Instruments Incorporated, Toshiba America Information Systems, Inc., NEC Technologies, Inc., Old America, Inc. (Okidata division), Canon U.S.A., Inc., Packard Bell Electronics, Inc., Epson America, Inc., Xerox Corporation, Tektronix, Inc., and Toshiba America Information Systems, Inc. or any of their subsidiaries or affiliated companies, whether now owned or hereafter acquired, and all attachments, accessories, accessions, returns, repossessions, exchanges, substitutions and replacements thereto, and all proceeds thereof; and

(b) rebates, discounts, credits and incentive payments, now or hereafter due Dealer, relating to any of the above described inventory and equipment, and all proceeds thereof.

All such assets are collectively referred to herein as the 'Collateral'. All of such terms for which meanings are provided in the Uniform Commercial Code are used herein with such meanings. All Collateral financed by DFS, and all proceeds thereof, will be held in trust by Dealer for DFS, with such proceeds being payable in accordance with this Agreement."

2. DFS and Dealer agree that the following paragraph is incorporated into the Agreement as if fully and originally set forth therein;

"7.1 Financial Covenants. Dealer will

(a) At all times maintain a Consolidated Net Worth of not less than the amounts specified below at the end of each of Dealer's fiscal quarters as indicated:

| Fiscal Quarter(s)Ending on | Required Net Worth Quarter-end Date |
|--|--|
| 06/30/99 | \$ 60,000,000 |
| 09/30/99 | \$ 60,000,000 |
| 12/31/99 | \$ 76,000,000 |
| 03/31/00 | \$ 76,000,000 |
| 06/30/00 | \$ 76,000,000 |
| 09/30/00 | \$ 76,000,000 |
| 12/31/00 | \$ 96,000,000 |
| 03/31/01 | \$ 96,000,000 |
| 06/30/01 | \$ 96,000,000 |
| 09/30/01 | \$ 96,000,000 |
| 12/31/01 and each fiscal quarter thereafter | \$ 120,000.000 |

(b) As of each date indicated below, for the twelve months ending on that date, Dealer shall maintain the Consolidated Net Income indicated:

| Fiscal Quarter(s)Ending | Required Net Income for Previous Four Quarters on Quarter-end Date |
|--|---|
| 06/30/99 | \$ 12,000,000 |
| 09/30/99 | \$ 12,000,000 |
| 12/31/99 | \$ 16,000,000 |
| 03/31/00 | \$ 16,000,000 |
| 06/30/00 | 5 16,000,000 |
| 09/30/00 | \$ 16,000,000 |
| 12/31/00 | S 20,000,000 |
| 03/31/01 | 5 20,000,000 |
| 06/30/01 | \$ 20,000,000 |
| 09/30/01 | \$ 20,000,000 |
| 12/31/01 and each fiscal quarter thereafter | \$ 24,000,000 |

For purposes of this paragraph: (i) 'Consolidated Net Worth' means, at any date as of which the amount thereof shall be determined, the consolidated total assets of the Dealer and its affiliates, less the consolidated total liabilities of the Dealer and its affiliates; and (ii) 'Consolidated Net Income' means the net income (or deficit) from operations of the Dealer and its affiliates, after taxes. The foregoing terms shall be determined in accordance with generally accepted accounting principles consistently applied"

All other terms as they appear in the Agreement to the extent consistent with the foregoing, are ratified and remain unchanged and in full force and effect.

IN WITNESS WHEREOF, Dealer and DFS have executed this Amendment to Agreement for Wholesale Financing this 5th day of November, 1999.

PC CONNECTION, INC.,

ATTEST:

(Assistant) Secretary

By: /s/ Jack L. Ferguson

Title: Treasurer

DEUTSCHE FINANCIAL SERVICES CORPORATION

By: _____
Title: _____

IN WITNESS WHEREOF, Dealer and DFS have executed this Amendment to Agreement for Wholesale Financing this 5th day of November, 1999.

PC CONNECTION, INC.,

ATTEST:
/s/ [ILLEGIBLE]

(Assistant) Secretary

By: /s/ Jack L. Ferguson

Title: Treasurer

DEUTSCHE FINANCIAL SERVICES CORPORATION

By: _____
Title: _____

November 15, 1999

Mr. Christopher M. Renzi
Business Development Manager
Deutsche Financial Services Corporation
100 River Ridge Drive, Suite 202
Norwood, MA 02062

Dear Chris:

I enclose the following:

1. Copy of Amendment to Agreement for Wholesale Financing with my original signature.
2. Fax copy of Steve Markiewicz's attest signature (he is in a different locations, and he faxed the last page with his signature).
3. Copy of Agreement with Steve Markiewicz's original signature thereon.

I was out of the office all last week due to the death of my mother and was unable to send this out earlier.

Yours truly,

/s/ Jack

Jack L. Ferguson.
Treasurer, Director of Finance

JLF:eg
Enclosures

AMENDMENT TO AGREEMENT FOR WHOLESAL FINANCING
(PC Connection Sales Corp. fka PC Connection, Inc.)

This Amendment to Agreement for Wholesale Financing is entered into as of February 25, 2000 by and between PC Connection Sales Corp. fka PC Connection, Inc., a Delaware corporation ("Dealer") and Deutsche Financial Services Corporation ("DFS").

WHEREAS, the Dealer and DFS are parties to a certain Agreement for Wholesale Financing dated March 25, 1998, as amended from time to time (the "Agreement"); and

WHEREAS, the Dealer has engaged in a corporate reorganization which was consummated on or about December 31, 1999, in which, among other things, (i) the Dealer formed PC Holdco, Inc. ("Holdco") as its subsidiary, (ii) Holdco formed a transitory subsidiary which merged into the Dealer, which resulted in the Dealer being a wholly-owned subsidiary of Holdco, (iii) the Dealer formed two new subsidiaries, PC Connection Sales of Massachusetts, Inc. ("Sales-MA") and Merrimack Services Corp. ("Merrimack"), each a Delaware corporation and contributed certain assets to such entities, (iv) Dealer then distributed its stock in Merrimack and its other subsidiary, Comteq Federal, Inc. ("Comteq") to Holdco, and (v) the Dealer changed its name to "PC Connection Sales Corp." and Holdco changed its name to "PC Connection, Inc." (the "Restructuring"); and

WHEREAS, the Dealer and DFS desire to amend the Agreement on the terms and conditions set forth herein;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Dealer and DFS hereby agree as follows:

1. Section 3 of the Agreement is hereby deleted in its entirety and replaced in its entirety with the following:

"3. To secure payment of all of Dealer's current and future debts to DFS, whether under this Agreement or any current or future guaranty or other agreement, excluding any and all debts to DFS under any and all guarantees by Dealer of any obligations of any of its affiliates or subsidiaries to DFS, Dealer grants DFS a security interest in all of Dealer's:

(i) All of Debtor's inventory, which is manufactured or sold by or bearing any trademark or tradename of Compaq Computer Corporation, Acer America Corporation, Apple Computer, Inc., Digital Equipment Corporation, Hewlett-Packard Company, Hitachi Sales Corporation of America, Power Computing, Texas Instruments Incorporated, Toshiba America Information Systems, Inc., NEC Technologies, Inc., Oki America, Inc. (Okidata division), Canon U.S.A., Inc., Packard Bell Electronics, Inc., Epson America, Inc., Xerox Corporation, Tektronix, Inc. and Toshiba Information

Systems, Inc. or any of their subsidiaries or affiliated companies, whether now owned or hereafter acquired;

(ii) All parts, attachments, accessories, accessions, repossessions, exchanges, substitutions and replacements thereto or thereof;

(iii) All rebates, discounts, credits, refunds and incentive payments, now or hereafter due Debtor, relating and limited to any of the items described in clauses (i) or (ii) above; and

(iv) All cash proceeds of and insurance payable by loss of or damage to any of the items described in clauses (i), (ii) or (iii) above.

The foregoing clauses (i), (ii), (iii) and (iv) shall not include, and specifically exclude, any and all accounts, promissory notes, installment contracts, contract rights, chattel paper, instruments or other rights to payment, except for claims arising specifically from clauses (iii) or (iv) above. "Proceeds" as defined in the Uniform Commercial Code are specifically excluded, except to the extent specifically included in clauses (i) through (iv) above.

All such assets being referred to collectively as the "Collateral". All of such terms for which meanings are provided in the Uniform Commercial Code are used herein with such meanings. All Collateral financed by DFS will be held in trust by Dealer for DFS, with any cash amounts received therefrom being payable in accordance with Section 9 hereof."

2. Effective as of the date of the Restructuring, DFS hereby consents to the Restructuring and waives any notice thereof which may be required under the Agreement. DFS further consents to (a) the issuance by Dealer or any of its affiliates of any indebtedness to or guarantees to (i) IBM Credit Corporation or (ii) lenders under any working capital facility of Dealer or any of its affiliates, or (b) the granting of any liens to IBM Credit Corporation.

3. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect. Dealer hereby ratifies and confirms the Agreement as amended hereby and agrees that the Agreement as amended hereby represents a valid and enforceable obligation of Dealer.

4. This Amendment shall be governed by and interpreted in accordance with the laws of the Commonwealth of Massachusetts.

5. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

IN WITNESS WHEREOF, Dealer and DFS have executed this Amendment to Agreement for Wholesale Financing as of the date first set forth above.

ATTEST:

PC CONNECTION SALES CORP.
fka PC Connection, Inc.

By: /s/ [ILLEGIBLE]

Its: President and Treasurer

Name:
Title:

DEUTSCHE FINANCIAL SERVICES
CORPORATION

By: /s/ [ILLEGIBLE]

Its: Vice President - Operations

GUARANTY

TO: DEUTSCHE FINANCIAL SERVICES CORPORATION

In consideration of financing provided or to be provided by you to PC Connection Sales Corp. ("Dealer"), and for other good and valuable consideration received, we jointly, severally, unconditionally and absolutely guaranty to you, from property held separately, jointly or in community, the immediate payment when due of all current and future liabilities owed by Dealer to you, whether such liabilities are direct, indirect or owed by Dealer to a third party and acquired by you (and, with respect to such liabilities owed by Dealer to a third party and acquired by you, to the extent the guaranty by the undersigned is reaffirmed in writing) ("Liabilities"). We will pay you on demand the full amount of all sums owed by Dealer to you, together with all reasonable costs and expenses (including, without limitation, reasonable attorneys' fees). We also indemnify and hold you harmless from and against all (a) losses, costs and expenses you incur and/or are liable for (including, without limitation, reasonable attorneys' fees) and (b) claims, actions and demands made by Dealer or any third party against you, which in any way relate to any relationship or transaction between you and Dealer.

Our guaranty will not be released, discharged or affected by, and we hereby irrevocably consent to, any: (a) change in the manner, place, interest rate, finance or other charges, or terms of payment or performance in any current or future agreement between you and Dealer, the release, settlement or compromise of or with any party liable for the payment or performance thereof or the substitution, release, non-perfection, impairment, sale or other disposition of any collateral thereunder; (b) change in Dealer's financial condition; (c) interruption of relations between Dealer and you or us; (d) claim or action by Dealer against you; and/or (e) increases or decreases in any credit you may provide to Dealer. We will pay you even if you have not exercised any of your rights or remedies against Dealer, any other person or any current or future collateral. This Guaranty is assignable by you and will inure to the benefit of your assignee. If Dealer hereafter undergoes any change in its ownership, identity or organizational structure, this Guaranty will extend to all current and future obligations which such new or changed legal entity owes to you.

We irrevocably waive (to the extent permitted by law): notice of your acceptance of this Guaranty, presentment, demand, protest, nonpayment, nonperformance, notice of breach or default, notice of intent to accelerate and notice of acceleration of any indebtedness of Dealer, any right of contribution from other guarantors, dishonor, the amount of indebtedness of Dealer outstanding at any time, the number and amount of advances made by you to Dealer in reliance on this Guaranty and any claim or action against Dealer; all other demands and notices required by law; all rights of offset and counterclaims against you or Dealer; all defenses to the enforceability of this Guaranty (including, without limitation, fraudulent inducement). We further waive (to the extent permitted by law) all defenses based on suretyship or impairment of collateral, and defenses which the Dealer may assert on the underlying debt, including but not limited to, failure of consideration, breach of warranty, fraud, statute of frauds, bankruptcy, lack of legal capacity, lender liability, deceptive trade practices and usury. We also waive all rights to claim, arbitrate for or sue for any punitive or exemplary damages. In addition, we hereby irrevocably subordinate to you any and all of our present and future rights and remedies: (a) of subrogation against Dealer to any of your rights or remedies against Dealer, (b) of contribution, reimbursement, indemnification and restoration from Dealer; and (c) to assert any other claim or action against Dealer directly or indirectly relating to this Guaranty, such subordination to last until you have been paid in full for all Liabilities. All of our waivers and subordinations herein will survive any termination of this Guaranty.

We have made an independent investigation of the financial condition of Dealer and give this Guaranty based on that investigation and not upon any representation made by you. We have access to current and future Dealer financial information which enables us to remain continuously informed of Dealer's financial condition. We represent and warrant to you that we have received and will receive substantial direct or indirect

benefit by making this Guaranty and incurring the Liabilities. We will provide you with consolidated financial statements on us and our subsidiaries each year within ninety (90) days after the end of our fiscal year end. We warrant and represent to you that all financial statements and information relating to us or Dealer which have been or may hereafter be delivered by us or Dealer to you are true and correct and have been and will be prepared in accordance with generally accepted accounting principles consistently applied and, with respect to previously delivered statements and information, there has been no material adverse change in the financial or business condition of us or Dealer since the submission to you, either as of the date of delivery, or if different, the date specified therein, and we acknowledge your reliance thereon. This Guaranty will survive any federal and/or state bankruptcy or insolvency action involving Dealer. We are solvent and our execution of this Guaranty will not make us insolvent. If you are required in any action involving Dealer to return or rescind any payment made to or value received by you from or for the account of Dealer, this Guaranty will remain in full force and effect and will be automatically reinstated without any further action by you and notwithstanding any termination of this Guaranty or your release of us. Any delay or failure by you, or your successors or assigns, in exercising any of your rights or remedies hereunder will not waive any such rights or remedies. Oral agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable. To protect us and you from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as specifically provided herein or as we may later agree in writing to modify it. Notwithstanding anything herein to the contrary: (a) you may rely on any facsimile copy, electronic data transmission or electronic data storage of this Guaranty, any agreement between you and Dealer, any Statement of Transaction, billing statement, invoice from a vendor, financial statements or other report, and (b) such facsimile copy, electronic data transmission or electronic data storage will be deemed an original, and the best evidence thereof for all purposes, including, without limitation, under this Guaranty or any other agreement between you and us, and for all evidentiary purposes before any arbitrator, court or other adjudicatory authority. We may terminate this Guaranty by a written notice to you, the termination to be effective forty-five (45) days after you receive and acknowledge it, but the termination will not terminate our obligations hereunder for Liabilities arising prior to the effective termination date. We have read and understood all terms and provisions of this Guaranty. We acknowledge receipt of a true copy of this Guaranty and of all agreements between you and Dealer. The meanings of all terms herein are equally applicable to both the singular and plural forms of such terms.

BINDING ARBITRATION. Except as otherwise specified below, all actions, disputes, claims and controversies under common law, statutory law or in equity of any type or nature whatsoever (including, without limitation, all torts, whether regarding negligence, breach of fiduciary duty, restraint of trade, fraud, conversion, duress, interference, wrongful replevin, wrongful sequestration, fraud in the inducement, usury or any other tort, all contract actions, whether regarding express or implied terms, such as implied covenants of good faith, fair dealing, and the commercial reasonableness of any collateral disposition, or any other contract claim, all claims of deceptive trade practices or lender liability, and all claims questioning the reasonableness or lawfulness of any act), whether arising before or after the date of this Guaranty, and whether directly or indirectly relating to: (a) this Guaranty and/or any amendments and addenda hereto, or the breach, invalidity or termination hereof; (b) any previous or subsequent agreement between you and us; (c) any act committed by you or by any parent company, subsidiary or affiliated company of you (the "DFS Companies"), or by an employee, agent, officer or director of a DFS Company, whether or not arising within the scope and course of employment or other contractual representation of the DFS Companies provided that such act arises under a relationship, transaction or dealing between you and Dealer or you and us; and/or (d) any other relationship, transaction, dealing or agreement between you and Dealer or you and us (collectively the "Disputes"), will be subject to and resolved by binding arbitration.

All arbitration hereunder will be conducted in accordance with The Commercial Arbitration Rules of The American Arbitration Association ("AAA"). If the AAA is dissolved, disbanded or becomes subject to any state or federal bankruptcy or insolvency proceeding, the parties will remain subject to binding arbitration which will be

conducted by a mutually agreeable arbitral forum. The parties agree that all arbitrator(s) selected will be attorneys with at least five (5) years secured transactions experience. The arbitrator(s) will decide if any inconsistency exists between the rules of any applicable arbitral forum and the arbitration provisions contained herein. If such inconsistency exists, the arbitration provisions contained herein will control and supersede such rules. The site of all arbitrations will be in the Division of the Federal Judicial District in which AAA maintains a regional office that is closest to Dealer.

Discovery permitted in any arbitration proceeding commenced hereunder is limited as follows: No later than sixty (60) days after the filing of a claim for arbitration, the parties will exchange detailed statements setting forth the facts supporting the claim(s) and all defenses to be raised during the arbitration, and a list of all exhibits and witnesses. No later than twenty-one (21) days prior to the arbitration hearing, the parties will exchange a final list of all exhibits and all witnesses, including any designation of any expert witness(es) together with a summary of their testimony; a copy of all documents and a detailed description of any property to be introduced at the hearing. However, in the event of the designation of any expert witness(es), the following will occur: (a) all information and documents relied upon by the expert witness(es) will be delivered to the opposing party, (b) the opposing party will be permitted to depose the expert witness(es), (c) the opposing party will be permitted to designate rebuttal expert witness(es), and (d) the arbitration hearing will be continued to the earliest possible date that enables the foregoing limited discovery to be accomplished.

The Arbitrator(s) will not have the authority to award exemplary or punitive damages.

x

All arbitration proceedings, including testimony or evidence at hearings, will be kept confidential, although any award or order rendered by the arbitrator(s) pursuant to the terms of this Guaranty may be entered as a judgment or order in any state or federal court and may be entered as a judgment or order within the federal judicial district which includes the residence of the party against whom such award or order was entered. This Guaranty concerns transactions involving commerce among the several states. The Federal Arbitration Act ("FAA") will govern all arbitration(s) and confirmation proceedings hereunder.

Nothing herein will be construed to prevent your or our use of bankruptcy, receivership, injunction, repossession, replevin, claim and delivery, sequestration, seizure, attachment, foreclosure, dation and/or any other prejudgment or provisional action or remedy relating to any collateral for any current or future debt owed by either party to the other. Any such action or remedy will not waive your or our right to compel arbitration of any Dispute.

If either we or you bring any other action for judicial relief with respect to any Dispute (other than those set forth in the immediately preceding paragraph), the party bringing such action will be liable for and immediately pay all of the other party's reasonable costs and expenses (including attorneys' fees) incurred to stay or dismiss such action and remove or refer such Dispute to arbitration. If either we or you bring or appeal an action to vacate or modify an arbitration award and such party does not prevail, such party will pay all reasonable costs and expenses, including reasonable attorneys' fees, incurred by the other party in defending such action.

Any arbitration proceeding must be instituted: (a) with respect to any Dispute for the collection of any debt owed by either party to the other, within two (2) years after the date the last payment was received by the instituting party; and (b) with respect to any other Dispute, within two (2) years after the date the incident giving rise thereto occurred. Failure to institute an arbitration proceeding within such period will constitute an absolute bar and waiver to the institution of any proceeding with respect to such Dispute. Except as otherwise stated herein, all notices, arbitration claims, responses, requests and documents will be sufficiently given or served if mailed or delivered: (i) to us at our address below; (ii) to you at 655 Maryville Centre Drive,

St. Louis, Missouri 63141-5832. Attention: General Counsel; or such other address as the parties may specify from time to time in writing.

The agreement to arbitrate will survive the termination of this Guaranty.

IF THIS GUARANTY IS FOUND TO BE NOT SUBJECT TO ARBITRATION, ANY LEGAL PROCEEDING WITH RESPECT TO ANY DISPUTE WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. WE WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH PROCEEDING.

We acknowledge and agree that this Guaranty and all agreements between Dealer and you have been substantially negotiated, and will be performed, in the state of Massachusetts. Accordingly, we agree that all Disputes will be governed by, and construed in accordance with, the laws of such state, except to the extent inconsistent with the provisions of the FAA which will control and govern all arbitration proceedings hereunder.

THIS GUARANTY CONTAINS BINDING ARBITRATION, JURY WAIVER AND PUNITIVE DAMAGES WAIVER PROVISIONS.

Date: 2/25, 2000

CORPORATE, PARTNERSHIP OR LIMITED LIABILITY COMPANY GUARANTOR:

PC Connection, Inc.

By: /s/ Mark Gavin

Print Name: Mark Gavin

Title: CFO

By: -----

Print Name: -----

Title: -----

Address of Guarantor(s):

PC CONNECTIONS, INC.

AGREEMENT FOR INVENTORY FINANCING

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AGREEMENT FOR INVENTORY FINANCING

This AGREEMENT FOR INVENTORY FINANCING (as amended, supplemented or otherwise modified from time to time, this "Agreement") amends and restates that Agreement for Wholesale Financing dated June 4, 1994 (as amended from time to time, the "AWF") and is hereby made this 17th day of August, 1999, by and between IBM Credit Corporation, a Delaware corporation with a place of business at 1500 RiverEdge Parkway, Atlanta, GA 30328 ("IBM Credit"), and PC Connection, Inc., a Delaware corporation with a place of business at 101A 730 Milford Road, Merrimack, NH 03054 ("Customer").

WITNESSETH

WHEREAS, IBM Credit and Customer are parties to that certain AWF pursuant to which IBM Credit finances Customer's acquisition of Inventory and equipment;

WHEREAS, in the course of Customer's operations, Customer intends to purchase from Persons approved in writing by IBM Credit for the purposes of this Agreement (the "Authorized Suppliers") computer hardware and software products manufactured or distributed by or bearing any trademark or trade name of such Authorized Suppliers (the "Products") (as of the date hereof the Authorized Suppliers are as set forth on Attachment E hereto);

WHEREAS, Customer has requested that IBM Credit finance its purchase of Products from such Authorized Suppliers and IBM Credit Is willing to provide such financing to Customer subject to the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and far other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree that the AWF is hereby amended and restated in its entirety as follows:

Section 1. DEFINITIONS; ATTACHMENTS

1.1. Special Definitions. The following terms shall have the following respective meaning in this Agreement:

"Advance": any loan or other extension of credit by IBM Credit to, or on behalf of, Customer pursuant to this Agreement including, without limitation, Product Advances.

"Affiliate": with respect to the Customer, any Person meeting one of the following: (i) at least 10% of such Person's equity is owned, directly or indirectly, by Customer; (ii) at least 10% of Customer's equity is owned, directly or indirectly, by such Person; or (iii) at least 10% of Customer's equity and at least 10% of such Person's equity is owned, directly or indirectly, by the same Person or Persons. All of Customer's officers, directors, joint venturers, and partners shall also be deemed to be Affiliates of Customer for purposes of this Agreement.

"Agreement": as defined in the caption.

"Auditors": Deloitte & Touche LLP or a nationally recognized firm of independent certified public accountants selected by Customer and satisfactory to IBM Credit.

"Available Credit": at any time, (1) the Maximum Advance Amount less (2) the Outstanding Advances at such time.

"Average Daily Balance": for each Advance for a given period of time, the sum of the unpaid principal of such Advance as of each day during such period of time, divided by the number of days in such period of time.

"Borrowing Base": as defined in Attachment A.

"Business Day": any day other than a Saturday, Sunday or other day on which commercial banks in New York, New York are generally closed or on which IBM Credit is closed.

"Closing Date": the date on which the conditions precedent to the effectiveness of this Agreement set forth in Section 5.1 hereof are satisfied or waived in writing by IBM Credit.

"Collateral": as defined In Section 4.1.

"Collateral Management Report": a report to be delivered by Customer to IBM Credit from time to time, as provided herein, signed by the chief executive officer or chief financial officer of Customer, substantially in the form and detail of Attachment F hereto, detailing and certifying, among other items: a summary of Customer's inventory on hand financed by IBM Credit, Customer's Inventory on hand financed by IBM Credit by quantity, type, model, Authorized Supplier's invoice price to Customer and the total of the line item values for all inventory listed on the report, the amounts and aging of Customers accounts payable as of a specified date, all of the Customer's IBM Credit borrowing activity during a specified period and the total amount of Customer's Borrowing Base as well as Customers Outstanding Product Advances, Available Credit and any Shortfall Amount as of a specified date.

"Common Due Date": (1) the fifth day of a calendar month if the Product Financing Period expires on the first through tenth of such calendar month; (2) the fifteenth day of a calendar month if the Product Financing Period expires on the eleventh through twentieth of such calendar month; and (3) the twenty-fifth day of a calendar month if the Product Financing Period expires on the twenty-first through the last day of such calendar month.

"Compliance Certificate": a certificate as set forth in Attachment C.

"Credit Line": as defined in Section 2.1.

"Customer": as defined in the caption.

"Default": either (1) an Event of Default or (2) any event or condition which, but for the requirement that notice be given or time lapse or both, would be an Event of Default.

"Delinquency Fee Rate": as defined on Attachment A.

"Event of Default": as defined In Section 9.1.

"Financial Statements": the consolidated and consolidating balance sheets (including, without limitation, securities such as stocks and investment bonds), statements of operations, statements of cash flows and statements of changes in shareholder's equity of Customer and its Subsidiaries for the period specified, prepared in accordance with GAAP and consistent with prior practices.

"Floor Plan Lender: any Person who now or hereinafter provides inventory financing to Customer, provided that such Person executes an Intercreditor Agreement (as defined in Section 5.1 of this Agreement) or a subordination agreement with IBM Credit in form and substance satisfactory to IBM Credit.

"Free Financing Period": for each Product Advance, the period, if any, in which IBM Credit does not charge Customer a financing charge. IBM Credit shall calculate the Customer's Free Financing Period utilizing a methodology that is consistent with the methodologies used for similarly situated customers of IBM Credit. The Customer understands that IBM Credit may not offer, may change or may cease to offer a Free Financing Period for the Customer's purchases of Products.

"Free Financing Period Exclusion Fee": as defined In Attachment A.

"GAAP": generally accepted accounting principles in the United States as in effect from time to time.

"Governmental Authority": any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled (through stock or capital ownership or otherwise) by any of the foregoing.

"IBM Credit": as defined in the caption.

"Indebtedness": with respect to any Person, (1) all obligations of such Person for borrowed money or for the deferred purchase price of property or services (other than trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices) or which is evidenced by a note, bond, debenture or similar instrument, (2) all obligations of such Person under capital leases (including obligations under any leases Customer may enter into, now or in the future, with IBM Credit), (3) all obligations of such Person in respect of letters of credit, banker's acceptances or similar obligations issued or created for the account of such Person, (4) liabilities arising under any interest rate protection, future, option swap, cap or hedge agreement or arrangement under which such Person is a party or beneficiary, (5) all obligations under guaranties of such Person and (6) all liabilities secured by any lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

"Lien(s)": any lien, claim, charge, pledge, security interest, deed of trust, mortgage, other encumbrance or other arrangement having the practical effect of the foregoing, including the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement.

"Material Adverse Effect": a material adverse effect (1) on the business, operations, results of operations, assets, or financial condition of the Customer, (2) on the aggregate value of the Collateral or the aggregate amount which IBM Credit would be likely to receive (after giving consideration to reasonably likely delays in payment and reasonable costs of enforcement) in the liquidation of such Collateral to recover the Obligations in full, or (3) on the rights and remedies of IBM Credit under this Agreement.

"Maximum Advance Amount": at any time, the lesser of (1) the Credit Line and (2) the Borrowing Base at such time.

"Obligations": all covenants, agreements, warranties, duties, representations, loans, advances, interest (including interest accruing on or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to Customer, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), fees, reasonable expenses, indemnities, liabilities and indebtedness of any kind and nature whatsoever now or hereafter arising, owing, due or payable from Customer to IBM Credit.

"Other Documents": all security agreements, mortgages, leases, instruments, documents, guarantees, schedules of assignment, contracts and similar agreements executed by customer and delivered to IBM Credit, pursuant to this Agreement or otherwise, and all amendments, supplements and other modifications to the foregoing from time to time.

"Other Charges": as set forth in Attachment A.

"Outstanding Advances": at any time of determination, the sum of (1) the unpaid principal amount of all Advances made by IBM Credit under this Agreement; and (2) any finance charge, fee, expense or other amount related to Advances charged to Customers account with IBM Credit.

"Outstanding Product Advances": at any time of determination, the sum of (1) the unpaid principal amount of all Product Advances made by IBM Credit under this Agreement; and (2) any finance charge, fee, expense or other amount related to Product Advances charged to Customer's account with IBM Credit.

"Permitted Liens": any of the following:

- (1) Liens which are the subject of an Intercreditor Agreement, in effect from time to time between IBM Credit and any other secured creditor;
- (2) Purchase Money Security Interests;
- (3) Liens described in Section I of Attachment B;
- (4) Liens of warehousemen, mechanics, materialmen, workers, repairmen, common carriers, landlords and other similar Liens arising by operation of law or otherwise, not waived in connection herewith, for amounts that are not yet due and payable or being contested in good faith by appropriate proceedings promptly instituted and diligently conducted if an adequate reserve or other appropriate provisions shall have been made therefor as required to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect;
- (5) attachment or judgment Liens individually or in the aggregate not in excess of \$1,000,000 (exclusive of (A) any amounts that are duly bonded to the satisfaction Of IBM Credit or (B) any amount fully covered by insurance as to which the insurance company has acknowledged its obligation to pay such judgment in full);
- (6) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of Customer;
- (7) extensions and renewals of the foregoing Permitted Liens: provided that (A) the aggregate amount of such extended or renewed Liens do not exceed the original principal amount of the Indebtedness which it secures, (B) such Liens do not extend to any property other than property already previously subject to the Lien and (C) such extended or renewed Liens are on terms and conditions no more restrictive than the terms and conditions of the Liens being extended or renewed;
- (8) Liens arising from deposits or pledges to secure bids, tenders, contracts, leases, surety and appeal bonds and other obligations of like nature arising in the ordinary course of the Customers business;
- (9) Liens for taxes, assessments or governmental charges not delinquent or being contested, in good faith, by appropriate proceedings promptly instituted and diligently conducted if an adequate reserve or other appropriate provisions shall have been made therefor as required in order to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect;
- (10) Liens arising out of deposits in connection with workers' compensation, Unemployment Insurance or other social security or similar legislation;
- (11) Liens arising pursuant to this Agreement; and
- (12) other Liens consented to by IBM Credit in writing prior to incurring such Lien.

"Person": any individual, association, firm, corporation, partnership, trust, unincorporated organization or other entity whatsoever.

"Policies": all policies of insurance required to be maintained by Customer under this Agreement or any of the Other Documents.

"Prime Rate": as of the date of determination, the average of the rates of interest announced by Citibank, NA. Chase Manhattan Bank and Bank of America National Trust & Savings Association (or any other bank which IBM Credit uses in its normal course of business of determining Prime Rate) as their prime or base rate, as of the last Business Day of the calendar month immediately preceding the date of determination, whether or not such announced rates are the actual rates charged by such banking institutions to their most creditworthy borrowers.

"Product Advance": any advance of funds made or committed to be made by IBM Credit for the account of Customer to an Authorized Supplier in respect of an invoice delivered or to be delivered by such Authorized Supplier to IBM Credit describing Products purchased by Customer, including any such advance made or committed to be made as of the date hereof pursuant to the AWF.

"Product Financing Charge": as specified in a billing statement.

"Product Financing Period": for each Product Advance, equal to the Free Financing Period for such Product Advance or if there is no Free Financing Period, such period as IBM Credit may determine from time to time.

"Purchase Money Security Interest": any security interest securing Purchase Money Indebtedness, which security interest applies solely to the particular asset acquired with the Purchase Money Indebtedness.

"Requirement of Law": as to any Person, the articles of incorporation and by-laws of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other governmental authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Shortfall Amount": as defined in Section 2.5.

"Shortfall Transaction Fee": as defined in Attachment A.

"Subsidiary": with respect to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions are at the time directly or indirectly owned by such Person.

"Termination Date": shall mean the first anniversary of the date of this Agreement or such other date as IBM Credit and Customer may agree to from time to time.

"Voting Stock": securities, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the corporate directors (or persons performing similar functions).

1.2. Other Defined Terms. Terms not otherwise defined in this Agreement which are defined in the Uniform Commercial Code as in effect in the State of New York (the "U.C.C.") shall have the meanings assigned to them therein.

1.3. Attachments. All attachments, exhibits, schedules and other addenda hereto, including, but not limited to, Attachment A and Attachment B, are specifically incorporated herein by reference and made a part of this Agreement.

Section 2. CREDIT LINE; FINANCE CHARGES; OTHER CHARGES

2.1. Credit Line. Subject to the terms and conditions set forth in this Agreement, on and after the Closing Date to but not including the date that is the earlier of (i) the date on which this Agreement is

terminated pursuant to Section 10.1 and (ii) the date on which IBM Credit terminates the Credit Line pursuant to Section 9.2, IBM Credit agrees to extend to the Customer a credit line ("Credit Line") in the amount set forth in Attachment A pursuant to which IBM Credit will make to the Customer, from time to time, Advances in an aggregate amount at any one time outstanding not to exceed the Credit Line. Notwithstanding any other term or provision of this Agreement, IBM Credit may, at any time and from time to time, in its reasonable discretion (x) temporarily increase the amount of the Credit Line set forth in Attachment A and decrease the amount of the Credit Line to the amount of the Credit Line set forth in Attachment A, in each case upon written notice to the Customer, and (y) make Advances pursuant to this Agreement upon the request of Customer in an aggregate amount at any one time outstanding in excess of the Credit Line.

2.2. Product Advances. (A) Subject to the terms and conditions of this Agreement, IBM Credit shall make Product Advances in connection with Customer's purchase of Products from Authorized Suppliers (as defined under WITNESSETH). Customer hereby authorizes and directs IBM Credit to pay the proceeds of Product Advances directly to the applicable Authorized Supplier in respect of invoices delivered to IBM Credit for such Products by such Authorized Supplier and acknowledges that each such Product Advance constitutes a loan by IBM Credit to Customer pursuant to this Agreement as if the Customer received the proceeds of the Product Advance directly from IBM Credit. IBM Credit may, upon written notice to Customer, cease to include a supplier as an Authorized Supplier.

(B) No finance charge shall accrue on any Product Advance during the Free Financing Period, if any, applicable to such Product Advance. Each Product Advance shall be due and payable on the Common Due Date for such Product Advance. Each Product Advance shall accrue a finance charge on the Average Daily Balance thereof from and including the first (1st) day following the end of the Free Financing Period, if any, for such Product Advance, or if no such Free Financing Period shall be in effect, from and including the date of invoice for such Product Advance, in each case, to and including the date such Product Advance shall become due and payable in accordance with the terms of this Agreement. In addition, for any Product Advance with respect to which a Free Financing Period shall not be in effect, Customer shall pay a Free Financing Period Exclusion Fee. Such fee shall be due and payable on the Common Due Date for such Product Advance. If it is determined that amounts received from Customer were in excess of the highest rate permitted by law, then the amount representing such excess shall be considered reductions to principal of Advances.

(C) Customer acknowledges that IBM Credit does not warrant the Collateral. Customer shall be obligated to pay IBM Credit in full even if the Collateral is defective or fails to conform to the warranties extended by the Authorized Supplier. The Obligations of Customer shall not be affected by any dispute Customer may have with any manufacturer, distributor or Authorized Supplier. Customer will not assert any claim or defense which it may have against any manufacturer, distributor or Authorized Supplier against IBM Credit.

(D) Customer hereby authorizes IBM Credit to collect directly from any Authorized Supplier any credits, rebates, bonuses or discounts owed by such Authorized Supplier to Customer ("Supplier Credits"). Any Supplier Credits received by IBM Credit may be applied by IBM Credit to the Outstanding Advances. Any Supplier Credits collected by IBM Credit shall in no way reduce Customer's debt to IBM Credit in respect of the Outstanding Advances until such Supplier Credits are applied by IBM Credit.

(E) IBM Credit may apply any payments and Supplier Credits received by IBM Credit to reduce finance charges first and then to principal amounts of Advances owed by Customer. IBM Credit may apply principal payments to the oldest (earliest) invoices (and related Product Advances) first, but, in any case, all principal payments will be applied in respect of the Outstanding Product Advances made for Products which have been sold, lost, stolen, destroyed, damaged or otherwise disposed of prior to any other application thereof.

(F) Customer will Indemnify and hold IBM Credit harmless from and against any claims or demands asserted by any Person relating to or arising from the Collateral for any reason whatsoever, including, without limitation, the condition of the Collateral, any misrepresentation made about the

Collateral by any representative of Customer, or any act or failure to act by Customer except to the extent such claims or demands are directly attributable to IBM Credit's negligence or willful misconduct. Nothing contained in the foregoing shall impair any rights or claims which the Customer may have against any manufacturer, distributor or Authorized Supplier.

2.3. Finance and Other Charges. (A) Finance charges shall be calculated by multiplying the applicable Delinquency Fee Rate or Product Financing Charge provided for in this Agreement by Customer's applicable Average Daily Balance. The Delinquency Fee Rate or the Product Financing Charge provided for in this Agreement are each computed on the basis of an actual day, 360 day year.

(B) The Customer hereby agrees to pay to IBM Credit the charges set forth as "Other Charges" in Attachment A. The Customer also agrees to pay IBM Credit additional charges for any returned items of payment received by IBM Credit. The Customer hereby acknowledges that any such charges are not interest but that such charges, if unpaid, will constitute part of the Outstanding Product Advances.

(C) The finance charges and Other Charges owed under this Agreement, and any charges hereafter agreed to in writing by the parties, are payable monthly on receipt of IBM Credit's bill or statement therefor or IBM Credit may, in its sole discretion, add unpaid finance charges and Other Charges to the Customer's Outstanding Product Advances.

(D) if any amount owed under this Agreement, including, without limitation, any Advance, is not paid when due (whether at maturity, by acceleration or otherwise), the unpaid amount thereof will bear a late charge from and including the day after it was due and payable to and including the date IBM Credit receives payment thereof, at a per annum rate equal to the lesser of (a) the amount set forth in Attachment A to this Agreement as the "Delinquency Fee Rate" and (b) the highest rate from time to time permitted by applicable law. In addition, if any Shortfall Amount shall not be paid when due pursuant to Section 2.5 hereof, Customer shall pay IBM Credit a Shortfall Transaction Fee. If it is determined that amounts received from Customer were in excess of such highest rate, then the amount representing such excess, shall be considered reductions to principal of Advances.

2.4. Customer Account Statements. IBM Credit will send statements of each transaction hereunder as well as monthly billing statements to Customer with respect to Advances and other charges due on Customer's account with IBM Credit. Each statement of transaction and monthly billing statement shall be deemed, absent manifest error, to be correct and shall constitute an account stated with respect to each transaction or amount described therein unless within fifteen (15) Business Days after such statement of transaction or billing statement is received by Customer, Customer provides IBM Credit written notice objecting that such amount or transaction is incorrectly described therein and specifying the error(s), if any, contained therein. IBM Credit may at any time adjust such statements of transaction or billing statements to comply with applicable law and this Agreement.

2.5. Shortfall. If on any date the Outstanding Advances owed by Customer to IBM Credit exceeds the Maximum Advance Amount (such excess, the "Shortfall Amount"), Customer shall immediately pay to IBM Credit an amount equal to such Shortfall Amount.

2.6. Application of Payments. The Customer hereby agrees that all checks and other instruments delivered to IBM Credit on account of Customer's Obligations shall constitute conditional payment until such items are actually collected by IBM Credit. The Customer waives the right to direct the application of any and all payments at any time or times hereafter received by IBM Credit on account of the Customer's Obligations. Customer agrees that IBM Credit shall have the continuing exclusive right to apply and reapply any and all such payments to Customer's Obligations in such manner as IBM Credit may deem advisable notwithstanding any entry by IBM Credit upon any of its books and records.

2.7. Prepayment and Reborrowing By Customer. (A) Customer may at any time prepay, without notice or penalty, in whole or in part amounts owed under this Agreement. IBM Credit may apply

payments made to it (whether by the Customer or otherwise) to pay finance charges and other amounts owing under this Agreement first and then to the principal amount owed by the Customer.

(B) Subject to the terms and conditions of this Agreement, any amount prepaid or repaid to IBM Credit in respect to the Outstanding Advances may be reborrowed by Customer in accordance with the provisions of this Agreement.

Section 3. CREDIT LINE ADDITIONAL PROVISIONS

3.1. Power of Attorney. Customer hereby irrevocably appoints IBM Credit, with full power of substitution, as its true and lawful attorney-in-fact with full power, in good faith and in compliance with commercially reasonable standards, in the discretion of IBM Credit, to:

(A) sign the name of Customer on any document or instrument that IBM Credit shall deem necessary or appropriate to perfect and maintain perfected the security interest in the Collateral contemplated under this Agreement and the Other Documents;

(B) endorse the name of Customer upon any of the items of payment of proceeds and deposit the same in the account of IBM Credit for application to the Obligations; and

upon the occurrence and during the continuance of an Event of Default as defined in Section 9.1 hereof:

(C) sign the name of Customer on any document or instrument that IBM Credit shall deem necessary or appropriate to enforce any and all remedies it may have under this Agreement, at law or otherwise; and

(D) make, settle and adjust claims under the Policies with respect to the Collateral and endorse Customer's name on any check, draft, instrument or other item of payment of the proceeds of the Policies with respect to the Collateral.

The power of attorney granted by this Section is for value and coupled with an interest and is irrevocable so long as this Agreement is in effect or any Obligations remain outstanding. Nothing done by IBM Credit pursuant to such power of attorney will reduce any of Customer's Obligations other than Customer's payment Obligations to the extent IBM Credit has received monies.

Section 4. SECURITY -- COLLATERAL

4.1. Grant. To secure Customer's full and punctual payment and performance of the Obligations (including obligations under any leases Customer may enter into, now or in the future, with IBM Credit) when due (whether at the stated maturity, by acceleration or otherwise), Customer hereby grants IBM Credit a security interest in all of Customer's right, title and interest in and to the following property, whether now owned or hereafter acquired or existing and wherever located:

(A) all inventory and equipment manufactured or sold by or bearing the trademark or trade name of the International Business Machines Corporation ("IBM") or Lexmark International, Inc. (including inventory used by Customer for demonstration and equipment in use by Customer) and all parts thereof, attachments, accessories and accessions thereto, products thereof and documents therefor excluding, however, Customer's equipment designated by IBM as model "AS400" and model "RS6000";

(B) all substitutions and replacements for all of the foregoing, all proceeds of all of the foregoing and, to the extent not otherwise included, all payments under insurance or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing.

All of the above assets shall be collectively defined herein as the "Collateral".

Customer covenants and agrees with IBM Credit that: (a) the security constituted to by this Agreement is in addition to any other security from time to time held by IBM Credit and (b) the security hereby created is a continuing security interest and will cover and secure the payment of all Obligations both present and future of Customer to IBM Credit.

4.2. Further Assurances. Customer shall, from time to time upon the request of IBM Credit, execute and deliver to IBM Credit, or cause to be executed and delivered, at such time or times as IBM Credit may request such other and further documents, certificates and instruments that IBM Credit may deem necessary to perfect and maintain perfected IBM Credit's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under this Agreement and the Other Documents. Customer shall make appropriate entries on its books and records disclosing IBM Credit's security interests in the Collateral.

Section 5. CONDITIONS PRECEDENT

5.1. Conditions Precedent to the Effectiveness of this Agreement. The effectiveness of this Agreement is subject to the receipt by IBM Credit of, or waiver in writing by IBM Credit of compliance with, the following conditions precedent:

(A) this Agreement executed and delivered by Customer and IBM Credit;

(B) a certificate of the secretary or an assistant secretary of Customer, substantially in the form and substance acceptable to IBM Credit, certifying that, among other items, (i) Customer is a corporation organized under the laws of the State of its incorporation and has its principal place of business as stated therein, (ii) Customer is registered to conduct business in specified states and localities, and (iii) the names and true signatures of the officers of Customer authorized to sign this Agreement and the Other Documents;

(C) certificates dated as of a recent date from the Secretary of State or other appropriate authority evidencing the good standing of Customer in the jurisdiction of its organization and in each other jurisdiction where the ownership or lease of its property or the conduct of its business requires it to qualify to do business;

(D) intercreditor agreements ("Intercreditor Agreement"), in form and substance satisfactory to IBM Credit, executed by each other secured creditor of Customer as set forth in Attachment A;

(E) UCC-1 financing statements for each jurisdiction reasonably requested by IBM Credit executed by Customer and each guarantor whose guaranty to IBM Credit is intended to be secured by a pledge of its assets;

(F) the statements, certificates, documents, instruments, financing statements, agreements and information set forth in Attachment A and Attachment B; and

(G) all such other statements, certificates, documents, instruments, financing statements, agreements and other information with respect to the matters contemplated by this Agreement as IBM Credit shall have reasonably requested.

5.2. Conditions Precedent to Each Advance. No Advance will be required to be made or renewed by IBM Credit under this Agreement unless, on and as of the date of such Advance, the following statements shall be true to the satisfaction of IBM Credit:

(A) The representations and warranties contained in this Agreement or in any document, instrument or agreement executed in connection herewith are true and correct in all material respects on and as of the date of such Advance as though made on and as of such date;

(B) No event has occurred and is continuing or after giving effect to such Advance or the application of the proceeds thereof would result in or would constitute a Default;

(C) No event has occurred and is continuing which could reasonably be expected to have a Material Adverse Effect;

(D) Both before and after giving effect to the making of such Advance, no Shortfall Amount exists.

Except as Customer has otherwise disclosed to IBM Credit in writing prior to each request, each request for an Advance hereunder shall be deemed to be a representation and warranty by Customer that, as of and on the date of such Advance, the statements set forth in (A) through (D) above are true statements. No such disclosures by Customer to IBM Credit shall in any manner be deemed to satisfy the conditions precedent to each Advance that are set forth in this Section 5.2.

Section 6. REPRESENTATIONS

To induce IBM Credit to enter into this Agreement, Customer represents to IBM Credit as follows:

6.1. Organization and Qualifications. Customer and each of its Subsidiaries (i) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) has the power and authority to own its properties and assets and to transact the businesses in which it presently is engaged and (iii) is duly qualified and is authorized to do business and is in good standing in each jurisdiction where it presently is engaged in business and is required to be so qualified.

6.2. Rights in Collateral; Priority of Liens. Customer and each of its Subsidiaries owns the property granted by it respectively as Collateral to IBM Credit, free and clear of any and all Liens in favor of third parties except for the Liens otherwise permitted pursuant to Section 8.1. The Liens granted by the Customer and each of its Subsidiaries pursuant to this Agreement, the Guaranties and the Other Documents in the Collateral constitute the valid and enforceable first, prior and perfected Liens on the Collateral, except to the extent any Liens that are prior to IBM Credit's Liens are (i) the subject of an Intercreditor Agreement or (ii) Purchase Money Security Interests in product of a brand that is not financed by IBM Credit.

6.3. No Conflicts. The execution, delivery and performance by Customer of this Agreement and each of the Other Documents (i) are within its corporate power; (ii) are duly authorized by all necessary corporate action; (iii) are not in contravention in any respect of any Requirement of Law or any indenture, contract, lease, agreement, instrument or other commitment to which it is a party or by which it or any of its properties are bound; (iv) do not require the consent, registration or approval of any Governmental Authority or any other Person (except such as have been duly obtained, made or given, and are in full force and effect); and (v) will not, except as contemplated herein, result in the imposition of any Liens upon any of its properties.

6.4. Enforceability. This Agreement and all of the other documents executed and delivered by the Customer in connection herewith are the legal, valid and binding obligations of Customer, and are enforceable in accordance with their terms, except as such enforceability may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar laws affecting creditors' rights generally or the general equitable principles relating thereto.

6.5. Locations of Offices, Records and Inventory. The address of the principal place of business and chief executive office of Customer is as set forth on Attachment B or on any notice provided by Customer to IBM Credit pursuant to Section 7.7(C) of this Agreement. The books and records of Customer are maintained exclusively at such location.

There is no jurisdiction in which Customer has any Collateral other than those jurisdictions identified on Attachment B or on any notice provided by Customer to IBM Credit pursuant to Section 7.7(C) of this Agreement. Attachment B, as amended from time to time by any notice provided by Customer to IBM Credit in accordance with Section 7.7(C) of this Agreement, also contains a complete list of the legal names and addresses of each warehouse at which the Customer's inventory is stored. None of the receipts received by Customer from any warehouseman states that the goods covered thereby are to be delivered to bearer or to the order of a named person or to a named person and such named person's assigns.

6.6. Organization. All of the outstanding capital stock of Customer has been validly issued, is fully paid and nonassessable.

6.7. No Judgments or Litigation. Except as set forth on Attachment B, no judgments, orders, writs or decrees are outstanding against Customer nor is there now pending or, to the best of Customer's knowledge after due inquiry, threatened, any litigation, contested claim, investigation, arbitration, or governmental proceeding by or against Customer all of which in aggregate exceed \$5,000,000.

6.8. No Defaults. The Customer is not in default under any term of any indenture, contract, lease, agreement, instrument or other commitment (in amounts which taken together exceed \$5,000,000) to which it is a party or by which it, or any of its properties are bound. Customer has no knowledge of any dispute regarding any such indenture, contract, lease, agreement, instrument or other commitment. No Default or Event of Default has occurred and is continuing.

6.9. Labor Matters. Except as set forth on any notice provided by Customer to IBM Credit pursuant to Section 7.1(H) of this Agreement, the Customer is not a party to one or more labor disputes which in aggregate exceed \$5,000,000. There are no strikes or walkouts or labor controversies pending or threatened against the Customer which could reasonably be expected to have a Material Adverse Effect.

6.10. Accuracy and Completeness of Information. All factual information furnished by or on behalf of the Customer to IBM Credit or the Auditors for purposes of or in connection with this Agreement or any of the Other Documents, or any transaction contemplated hereby or thereby is or will be true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any material fact necessary to make such information not misleading at such time.

6.11. Recording Taxes. All recording taxes, recording fees, filing fees and other charges payable in connection with the filing and recording of this Agreement have either been paid in full by Customer or arrangements for the payment of such amounts by Customer have been made to the satisfaction of IBM Credit.

Section 7. AFFIRMATIVE COVENANTS

Until termination of this Agreement and the indefeasible payment and satisfaction of all Obligations:

7.1. Financial and Other Information. Customer shall cause to be furnished to IBM Credit the following information within the following time periods:

(A) as soon as available and in any event within ninety (90) days after the end of each fiscal year of Customer (i) audited Financial Statements (provided that, to the extent not otherwise audited by the Auditors, the consolidating Financial Statements may be unaudited) as of the close of the fiscal year and for the fiscal year, together with a comparison to the Financial Statements for the prior year, in each case accompanied by (a) either an opinion of the Auditors without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit or, if so qualified, an opinion which shall be in scope and substance reasonably satisfactory to IBM Credit, (b) a written statement signed by the Auditors stating that in the course of the regular audit of the business of Customer and its consolidated

Subsidiaries, which audit was conducted by the Auditors in accordance with generally accepted auditing standards, the Auditors have not obtained any knowledge of the existence of any Default under any provision of this Agreement, or, if such Auditors shall have obtained from such examination any such knowledge, they shall disclose in such written statement the existence of the Default and the nature thereof, it being understood that such Auditors shall have no liability, directly or indirectly, to anyone for failure to obtain knowledge of any such Default; and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C hereto, of the calculations used in determining, as of the end of such fiscal year, whether Customer is in compliance with the financial covenants set forth in Attachment A;

(B) as soon as available and in any event within forty-five (45) days after the end of each fiscal quarter of Customer (i) Financial Statements as of the end of such period and for the fiscal year to date, together with a comparison to the Financial Statements for the same periods in the prior year, all in reasonable detail and duly certified (subject to normal year-end audit adjustments and except for the absence of footnotes) by the chief executive officer or chief financial officer of Customer as having been prepared in accordance with GAAP; and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C hereto, of the calculations used in determining, as of the end of such fiscal quarter, whether Customer is in compliance with the financial covenants set forth in Attachment A;

(C) promptly after Customer obtains knowledge of (i) any proceeding(s) being instituted or threatened to be instituted by or against Customer in any federal, state, local or foreign court or before any commission or other regulatory body (federal, state, local or foreign), or (ii) any actual or prospective change, development or event which, in any such case, has had or could reasonably be expected to have a Material Adverse Effect, a certificate of the chief executive officer or chief financial officer of Customer specifying the nature thereof and the Customer's proposed response thereto, each in reasonable detail;

(D) by the tenth (10th) day of each month, or as otherwise agreed in writing, a Collateral Management Report as of a date no earlier than the last day of the immediately preceding month;

(E) within ten (10) days after the same are sent, copies of all Financial Statements and reports which Customer sends to its stockholders, and within ten (10) days after the same are filed, copies of all Financial Statements and reports which Customer may make to, or file with, the Securities and Exchange Commission or any successor or analogous governmental authority.

Each certificate, schedule and report provided by Customer to IBM Credit shall be signed by an authorized officer of Customer, which signature shall be deemed a representation and warranty that the information contained in such certificate, schedule or report is true and accurate in all material respects on the date as of which such certificate, schedule or report is made and does not omit to state a material fact necessary in order to make the statements contained therein not misleading at such time. Each financial statement delivered pursuant to this Section 7.1 shall be prepared in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods.

7.2. Location of Collateral. The inventory, equipment and other tangible Collateral shall be kept or sold at the addresses as set forth on Attachment B or on any notice provided by Customer to IBM Credit in accordance with Section 7.7(C). Such locations shall be certified quarterly to IBM Credit substantially in the form of Attachment G.

7.3. Changes in Customer. Customer shall provide thirty (30) days prior written notice to IBM Credit of any change in Customer's name, chief executive office and principal place of business, organization, form of ownership or corporate structure; provided, however, that Customer's compliance with this covenant shall not relieve it of any of its other obligations or any other provisions under this Agreement or any of the Other Documents limiting actions of the type described in this Section.

7.4. Corporate Existence. Customer shall (A) maintain its corporate existence, maintain in full force and effect all licenses, bonds, franchises, leases and qualifications to do business, and all contracts

and other rights necessary to the profitable conduct of its business, (B) continue in, and limit its operations to, the same general lines or business as presently conducted by it unless otherwise permitted in writing by IBM Credit and (C) comply with all Requirements of Law.

7.5. Collateral Books and Records/Collateral Audit. (A) Customer agrees to maintain books and records pertaining to the Collateral in such detail, form and scope as is consistent with good business practice, and agrees that such books and records will reflect IBM Credit's interest in the Collateral.

(B) Customer agrees that IBM Credit or its agents may enter upon the premises of Customer at any time and from time to time, during normal business hours and upon reasonable notice under the circumstances, and at any time at all on and after the occurrence and during the continuance of an Event of Default for the purposes of (i) inspecting the Collateral, (ii) inspecting and/or copying (at Customer's expense) any and all records pertaining thereto, and (iii) discussing the affairs, finances and business of Customer with any officers, employees and directors of Customer or with the Auditors. Customer also agrees to provide IBM Credit with such reasonable information and documentation that IBM Credit deems necessary to conduct the foregoing activities.

Upon the occurrence and during the continuance of an Event of Default which has not been waived by IBM Credit in writing. IBM Credit may conduct any of the foregoing activities in any manner that IBM Credit deems reasonably necessary.

(C) Customer shall give IBM Credit thirty (30) days prior written notice of any change in the location of any Collateral, the location of its books and records or in the location of its chief executive office or place of business from the locations specified in Attachment B, and will execute in advance of such change and cause to be filed and/or delivered to IBM Credit any financing statements, landlord or other lien waivers, or other documents reasonably required by IBM Credit, all in form and substance reasonably satisfactory to IBM Credit.

(D) Customer agrees to advise IBM Credit promptly, in reasonably sufficient detail, of any substantial change relating to the type, quantity or quality of the Collateral, or any event which could reasonably be expected to have a Material Adverse Effect on the value of the Collateral or on the security interests granted to IBM Credit herein.

7.6. Insurance; Casualty Loss. (A) Customer agrees to maintain with financially sound and reputable insurance companies: (i) insurance on its properties, (ii) public liability insurance against claims for personal injury or death as a result of the use of any products sold by it and (iii) insurance coverage against other business risks, in each case, in at least such amounts and against at least such risks as are usually and prudently insured against in the same general geographical area by companies of established repute engaged in the same or a similar business. Customer will furnish to IBM Credit, upon its written request, the insurance certificates with respect to such insurance. In addition, all Policies so maintained are to name IBM Credit as an additional insured as its interest may appear.

(B) Without limiting the generality of the foregoing, Customer shall keep and maintain, at its sole expense, the Collateral insured for an amount not less than the amount set forth on Attachment A from time to time opposite the caption "Collateral Insurance Amount" against all loss or damage under an "all risk" Policy with companies mutually acceptable to IBM Credit and Customer, with a lender's loss payable endorsement or mortgagee clause in form and substance reasonably satisfactory to IBM Credit designating that any loss payable thereunder with respect to such Collateral shall be payable to IBM Credit. Upon receipt of proceeds by IBM Credit the same shall be applied on account of the Customer's Outstanding Advances. Customer agrees to instruct each insurer to give IBM Credit, by endorsement upon the Policy issued by it or by independent instruments furnished to IBM Credit, at least ten (10) days written notice before any Policy shall be altered or cancelled and that no act or default of Customer or any other person shall affect the right of IBM Credit to recover under the Policies. Customer hereby agrees to direct all insurers under the Policies to pay all proceeds with respect to the Collateral directly to IBM Credit. If Customer fails to pay any cost, charges or premiums, or if Customer fails to insure the

Collateral, IBM Credit may pay such costs, charges or premiums. Any amounts paid by IBM Credit hereunder shall be considered an additional debt owed by Customer to IBM Credit and are due and payable immediately upon receipt of an invoice by IBM Credit.

7.7. Taxes. Customer agrees to pay, when due, all taxes lawfully levied or assessed against Customer or any of the Collateral before any penalty or interest accrues thereon unless such taxes are being contested, in good faith, by appropriate proceedings promptly instituted and diligently conducted and an adequate reserve or other appropriate provisions have been made therefor as required in order to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect.

7.8. Compliance With Laws. Customer agrees to comply with all Requirements of Law applicable to the Collateral or any part thereof, or to the operation of its business.

7.9. Fiscal Year. Customer agrees to maintain its fiscal year as a year ending December 31 unless Customer provides IBM Credit at least thirty (30) days prior written notice of any change thereof.

7.12. Maintenance of Property. Customer shall maintain all of its material properties (business and otherwise) in good condition and repair (ordinary wear and tear excepted) and pay and discharge all costs of repair and maintenance thereof and all rental and mortgage payments and related charges pertaining thereto and not commit or permit any waste with respect to any of its material properties.

7.13. Collateral. Customer shall:

(A) promptly notify IBM Credit of any loss, theft or destruction of or damage to any of the Collateral. Customer shall diligently file and prosecute its claim for any award or payment in connection with any such loss, theft, destruction of or damage to Collateral. Customer shall, upon demand of IBM Credit, make, execute and deliver any assignments and other instruments sufficient for the purpose of assigning any such award or payment to IBM Credit, free of encumbrances of any kind whatsoever;

(B) consistent with reasonable commercial practice, observe and perform all matters and things necessary or expedient to be observed or performed under or by virtue of any lease, license, concession or franchise forming part of the Collateral in order to preserve, protect and maintain all the rights of IBM Credit thereunder;

(C) consistent with reasonable commercial practice, maintain, use and operate the Collateral and carry on and conduct its business in a proper and efficient manner so as to preserve and protect the Collateral and the earnings, incomes, rents, issues and profits thereof; and

(D) at any time and from time to time, upon the request of IBM Credit, and at the sole expense of Customer, Customer will promptly and duly execute and deliver such further instruments and documents and take such further action as IBM Credit may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Uniform Commercial Code in effect in any jurisdiction with respect to the security interests granted herein and the payment of any and all recording taxes and filing fees in connection therewith.

7.14. Subsidiaries. IBM Credit may require that any Subsidiaries of Customer become parties to this Agreement or any other agreement executed in connection with this Agreement as guarantors or sureties. Customer will comply, and cause all Subsidiaries of Customer to comply with Sections 7 and 8 of this Agreement, as if such sections applied directly to such Subsidiaries.

7.15. Financial Covenants; Additional Covenants. Customer acknowledges and agrees that Customer shall comply with the financial covenants and other covenants set forth in the attachments, exhibits and other addenda incorporated herein and made a part of this Agreement.

Section 8. NEGATIVE COVENANTS

Until termination of this Agreement and the indefeasible payment and satisfaction of all Obligations hereunder.

8.1. Liens. The Customer will not, directly or indirectly mortgage, assign, pledge, transfer, create, incur, assume, permit to exist or otherwise permit any Lien or judgment to exist on any of its Collateral, whether now owned or hereafter acquired, except for Permitted Liens.

8.2. Disposition of Collateral. The Customer will not, directly or indirectly, sell, lease, assign, transfer or otherwise dispose of any Collateral other than (i) sales of inventory in the ordinary course of business and short term rental of inventory as demonstrations in amounts not material to Customer; and (ii) voluntary dispositions of Collateral in the ordinary course of business, provided, that the aggregate book value of all such Collateral so sold or disposed of under this section 8.2 (ii) in any fiscal year shall not exceed 5% of the consolidated assets of the Customer as of the beginning of such fiscal year.

8.3. Corporate Changes. The Customer will not, without the prior written notice to IBM Credit, directly or indirectly, merge, consolidate, liquidate, dissolve or enter into or engage in any operation or activity materially different from that presently being conducted by Customer.

8.4. Additional Negative Pledges. Customer will not, directly or indirectly, create or otherwise cause or permit to exist or become effective any contractual obligation which may restrict or inhibit IBM Credit's rights or ability to sell or otherwise dispose of the Collateral or any part thereof after the occurrence and during the continuance of an Event of Default.

8.5. Storage of Collateral with Bailees and Warehousemen. Collateral shall not be stored with a bailee, warehouseman or similar party without the prior written consent of IBM Credit unless Customer will, concurrently with the delivery of such Collateral to such party, cause such party to issue and deliver to IBM Credit, warehouse receipts in the name of IBM Credit evidencing the storage of such collateral.

Section 9. DEFAULT

9.1. Event of Default. Any one or more of the following events shall constitute an Event of Default by the Customer under this Agreement and the Other Documents:

(A) The failure to make timely payment of the Obligations or any part thereof when due and payable;

(B) Customer fails to comply with or observe any term, covenant or agreement contained in this Agreement or any of the Other Documents;

(C) Any representation, warranty, statement, report or certificate made or delivered by or on behalf of Customer or any of its officers, employees or agents or by or on behalf of any guarantor to IBM Credit was false in any material respect at the time when made or deemed made;

(D) The occurrence of any event or circumstance which could reasonably be expected to have a Material Adverse Effect on the Collateral;

(E) Customer, any Subsidiary or any guarantor shall generally not pay its debts as such debts become due, become or otherwise declare itself insolvent, file a voluntary petition for bankruptcy protection, have filed against it any involuntary bankruptcy petition, cease to do business as a going concern, make any assignment for the benefit of creditors, or a custodian, receiver, trustee, liquidator, administrator or person with similar powers shall be appointed for Customer, any Subsidiary or any

guarantor or any of its respective properties or have any of its respective properties seized or attached, or take any action to authorize, or for the purpose of effectuating, the foregoing, provided, however, that Customer, any Subsidiary or any guarantor shall have a period of forty-five (45) days within which to discharge any involuntary petition for bankruptcy or similar proceeding;

(F) The use of any funds borrowed from IBM Credit under this Agreement for any purpose other than as provided in this Agreement;

(G) The entry of any judgment against Customer or any guarantor in an amount in excess of \$5,000,000 and such judgment is not satisfied, dismissed, stayed or superseded by bond within thirty (30) days after the day of entry thereof (and in the event of a stay or supersedeas bond, such judgment is not discharged within thirty (30) days after termination of any such stay or bond) or such judgment is not fully covered by insurance as to which the insurance company has acknowledged its obligation to pay such judgment in full;

(H) The dissolution or liquidation of Customer, any Subsidiary or any guarantor, or Customer or any guarantor or its directors or stockholders shall take any action to dissolve or liquidate Customer or any guarantor;

(I) Any "going" concern or like qualification or exception, or qualification arising out of the scope of an audit by an Auditor of its opinion relative to any Financial Statement delivered to IBM Credit under this Agreement;

(J) There issues a warrant of distress for any rent or taxes with respect to any premises occupied by Customer in or upon which the Collateral, or any part thereof, may at any time be situated and such warrant shall continue for a period of ten (10) Business Days from the date such warrant is issued;

(K) Customer suspends business;

(L) The occurrence of any event or condition that permits the holder of any Indebtedness arising in one or more related or unrelated transactions to accelerate the maturity thereof or the failure of Customer to pay when due any such indebtedness;

(M) Customer is in default under the material terms of any of the Other Documents after the expiration of any applicable cure periods;

(N) Any "persons" (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) acquires a beneficial interest in 50% or more of the Voting Stock of Customer.

9.2. Acceleration. Upon the occurrence and during the continuance of an Event of Default which has not been waived in writing by IBM Credit, IBM Credit may, in its sole discretion, take any or all of the following actions, without prejudice to any other rights it may have at law or under this Agreement to enforce its claims against the Customer: (a) declare all Obligations to be immediately due and payable (except with respect to any Event of Default set forth in Section 9.1(E) hereof, in which case all Obligations shall automatically become immediately due and payable without the necessity of any notice or other demand) without presentment, demand, protest or any other action or obligation of IBM Credit; and (b) immediately terminate the Credit Line hereunder.

9.3. Remedies. (A) Upon the occurrence and during the continuance of any Event of Default which has not been waived in writing by IBM Credit, IBM Credit may exercise all rights and remedies of a secured party under the U.C.C. Without limiting the generality of the foregoing, IBM Credit may foreclose the security interests created pursuant to this Agreement by any available judicial procedure, or to take possession of any or all of the Collateral without judicial process and to enter any premises where any Collateral may be located for the purpose of taking possession of or removing the same.

(B) Upon the occurrence and during the continuance of an Event of Default which has not been waived in writing by IBM Credit, IBM Credit shall have the right to sell, lease, or otherwise dispose of all or any part of the Collateral, whether in its then condition or after further preparation or processing, in the name of Customer or IBM Credit, or in the name of such other party as IBM Credit may designate, either at public or private sale or at any broker's board, in lots or in bulk, for cash or for credit, with or without warranties or representations, and upon such other terms and conditions as IBM Credit in its sole discretion may deem advisable, and IBM Credit shall have the right to purchase at any such sale. If IBM Credit, in its sole discretion determines that any of the Collateral requires rebuilding, repairing, maintenance or preparation, IBM Credit shall have the right, at its option, to do such of the aforesaid as it deems necessary for the purpose of putting such Collateral in such saleable form as IBM Credit shall deem appropriate. The Customer hereby agrees that any disposition by IBM Credit of any Collateral pursuant to and in accordance with the terms of a repurchase agreement between IBM Credit and the manufacturer or any supplier (including any Authorized Supplier) of such Collateral constitutes a commercially reasonable sale. The Customer agrees, at the request of IBM Credit, to assemble the Collateral and to make it available to IBM Credit at places which IBM Credit shall select, whether at the premises of the Customer or elsewhere, and to make available to IBM Credit the premises and facilities of the Customer for the purpose of IBM Credit's taking possession of, removing or putting such Collateral in saleable form. If notice of Intended disposition of any Collateral is required by law, it is agreed that ten (10) Business Days notice shall constitute reasonable notification.

(C) The net cash proceeds resulting from IBM Credit's exercise of any of the foregoing rights (after deducting all charges, costs and expenses, including reasonable attorneys' fees) shall be applied by IBM Credit to the payment of Customer's Obligations, whether due or to become due, in such order as IBM Credit may in its sole discretion elect. Customer shall remain liable to IBM Credit for any deficiencies, and IBM Credit in turn agrees to remit to Customer or its successors or assigns, any surplus resulting therefrom.

(D) The enumeration of the foregoing rights is not intended to be exhaustive and the exercise of any right shall not preclude the exercise of any other rights, all of which shall be cumulative.

9.4. Waiver. If IBM Credit seeks to take possession of any of the Collateral by any court process Customer hereby irrevocably waives to the extent permitted by applicable law any bonds, surety and security relating thereto required by any statute, court rule or otherwise as an incident to such possession and any demand for possession of the Collateral prior to the commencement of any suit or action to recover possession thereof. In addition, Customer waives to the extent permitted by applicable law all rights of set-off it may have against IBM Credit. Customer further waives to the extent permitted by applicable law presentment, demand and protest, and notices of non-payment, non-performance, any right of contribution, dishonor, and any other demands, and notices required by law.

Section 10. MISCELLANEOUS

10.1. Term; Termination. (A) This Agreement shall remain in force until the earlier of (i) the Termination Date, (ii) the date specified in a written notice by the Customer that they intend to terminate this Agreement which date shall be no less than ninety (90) days following the receipt by IBM Credit of such written notice, and (iii) termination by IBM Credit after the occurrence and during the continuance of an Event of Default. Upon the date that this Agreement is terminated, all of Customer's Obligations shall be immediately due and payable in their entirety, even if they are not yet due under their terms.

(B) Until the indefeasible payment in full of all of Customer's Obligations, no termination of this Agreement or any of the Other Documents shall in any way affect or impair (i) Customer's Obligations to IBM Credit including, without limitation, any transaction or event occurring prior to and after such termination, or (ii) IBM Credit's rights hereunder, including, without limitation, IBM Credit's security interest in the Collateral. On and after a Termination Date IBM Credit may, but shall not be obligated to, upon the request of Customer, continue to provide Advances hereunder.

10.2. Indemnification. The Customer hereby agrees to indemnify and hold harmless IBM Credit and each of its officers, directors, agents and assigns (collectively, the "Indemnified Persons") against all losses, claims, damages, liabilities or other expenses (including reasonable attorneys' fees and court costs now or hereinafter arising from the enforcement of this Agreement, the "Losses") to which any of them may become subject insofar as such Losses arise out of or are based upon any event, circumstance or condition (a) occurring or existing on or before the date of this Agreement relating to any financing arrangements IBM Credit may from time to time have with (i) Customer, (ii) any Person that shall be acquired by Customer or (iii) any Person that Customer may acquire all or substantially all of the assets of, or (b) directly or indirectly, relating to the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby or thereby or to any of the Collateral or to any act or omission of the Customer in connection therewith. Notwithstanding the foregoing, the Customer shall not be obligated to indemnify IBM Credit for any Losses incurred by IBM Credit which are a result of IBM Credit's gross negligence or willful misconduct. The indemnity provided herein shall survive the termination of this Agreement.

10.3. Additional Obligations. IBM Credit, without waiving or releasing any Obligation or Default of the Customer, may perform any Obligations of the Customer that the Customer shall fail or refuse to perform and IBM Credit may, at any time or times hereafter, but shall be under no obligation to do so, pay, acquire or accept any assignment of any security interest, lien, encumbrance or claim against the Collateral asserted by any person. All sums paid by IBM Credit in performing in satisfaction or on account of the foregoing and any expenses, including reasonable attorney's fees, court costs, and other charges relating thereto, shall be a part of the Obligations, payable on demand and secured by the Collateral.

10.4. LIMITATION OF LIABILITY. NEITHER IBM CREDIT NOR ANY OTHER INDEMNIFIED PERSON SHALL HAVE ANY LIABILITY WITH RESPECT TO ANY SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES SUFFERED BY CUSTOMER IN CONNECTION WITH THIS AGREEMENT, ANY OTHER AGREEMENT OR ANY CLAIMS IN ANY MANNER RELATED THERETO. NOR SHALL IBM CREDIT OR ANY OTHER INDEMNIFIED PERSON HAVE ANY LIABILITY TO CUSTOMER OR ANY OTHER PERSON FOR ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY IT OR THEM HEREUNDER, EXCEPT FOR ITS OR THEIR OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

10.5. Alteration/Waiver. This Agreement and the Other Documents may not be altered or amended except by an agreement in writing signed by the Customer and by IBM Credit. No delay or omission of IBM Credit to exercise any right or remedy hereunder, whether before or after the occurrence of any Event of Default, shall impair any such right or remedy or shall operate as a waiver thereof or as a waiver of any such Event of Default. In the event that IBM Credit at any time or from time to time dispenses with any one or more of the requirements specified in this Agreement or any of the Other Documents, such dispensation may be revoked by IBM Credit at any time and shall not be deemed to constitute a waiver of any such requirement subsequent thereto. IBM Credit's failure at any time or times to require strict compliance and performance by the Customer of any undertakings, agreements, covenants, warranties and representations of this Agreement or any of the Other Documents shall not waive, affect or diminish any right of IBM Credit thereafter to demand strict compliance and performance thereof. Any waiver by IBM Credit of any Default by the Customer under this Agreement or any of the Other Documents shall not waive or affect any other Default by the Customer under this Agreement or any of the Other Documents, whether such Default is prior or subsequent to such other Default and whether of the same or a different type. None of the undertakings, agreements, warranties, covenants, and representations of the Customer contained in this Agreement or the Other Documents and no Default by the Customer shall be deemed waived by IBM Credit unless such waiver is in writing signed by an authorized representative of IBM Credit.

10.6. Severability. If any provision of this Agreement or the Other Documents or the application thereof to any Person or circumstance is held invalid or unenforceable, the remainder of this Agreement and the Other Documents and the application of such provision to other Persons or circumstances will

not be affected thereby, the provisions of this Agreement and the Other Documents being severable in any such instance.

10.7. One Loan. All Advances heretofore, now or at any time or times hereafter made by IBM Credit to the Customer under this Agreement or the Other Documents shall constitute one loan secured by IBM Credit's security interests in the Collateral and by all other security interests, liens and encumbrances heretofore, now or from time to time hereafter granted by the Customer to IBM Credit or any assignor of IBM Credit.

10.8. Additional Collateral. All monies, reserves and proceeds received or collected by IBM Credit with respect to other property of the Customer in possession of IBM Credit at any time or times hereafter are hereby pledged by Customer to IBM Credit as security for the payment of Customer's Obligations and shall be applied promptly by IBM Credit on account of the Customer's Obligations; provided, however, IBM Credit may release to the Customer such portions of such monies, reserves and proceeds as IBM Credit may from time to time determine, in its sole discretion.

10.9. No Merger or Novations. (A) Notwithstanding anything contained in any document to the contrary, it is understood and agreed by the Customer and IBM Credit that the claims of IBM Credit arising hereunder and existing as of the date hereof constitute continuing claims arising out of the Obligations of Customer under the AWF. Customer acknowledges and agrees that such Obligations outstanding as of the date hereof have not been satisfied or discharged and that this Agreement is not intended to effect a novation of the Customer's Obligations under the AWF.

(B) Neither the obtaining of any judgment nor the exercise of any power of seizure or sale shall operate to extinguish the Obligations of the Customer to IBM Credit secured by this Agreement and shall not operate as a merger of any covenant in this Agreement, and the acceptance of any payment or alternate security shall not constitute or create a novation and the obtaining of a judgment or judgments under a covenant herein contained shall not operate as a merger of that covenant or affect IBM Credit's rights under this Agreement.

10.10. Paragraph Titles. The Section titles used in this Agreement and the Other Documents are for convenience only and do not define or limit the contents of any Section.

10.11. Binding Effect; Assignment. This Agreement and the Other Documents shall be binding upon and inure to the benefit of IBM Credit and the Customer and their respective successors and assigns; provided, that the Customer shall have no right to assign this Agreement or any of the Other Documents without the prior written consent of IBM Credit.

10.12. Notices; E-Business Acknowledgment. (A) Except as otherwise expressly provided in this Agreement, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered (i) upon receipt if deposited in the United States mails, first class mail, with proper postage prepaid, (ii) upon receipt of confirmation or answerback if sent by telecopy or other similar facsimile transmission, (iii) one Business Day after deposit with a reputable overnight courier with all charges prepaid, or (iv) when delivered, if hand-delivered by messenger, all of which shall be properly addressed to the party to be notified and sent to the address or number indicated as follows:

(i) If to IBM Credit at:

IBM Credit Corporation
1500 RiverEdge Parkway
Atlanta, GA 30328
Attention: Region Manager, North
Facsimile: 770 / 644 - 4825

(ii) If to Customer at:

PC Connection, Inc.
Rt 101A 730 Milford Road
Merrimack, NH 03054
Attention: Mr. Jack Ferguson
Facsimile: 603 / 423 - 2283

or to such other address or number as each party designates to the other in the manner prescribed herein.

(B) (i) Each party may electronically transmit to or receive from the other party certain documents set forth in Attachment H ("E-Documents") via the Internet or electronic data Interchange ("EDI"). Any transmission of data which is not an E-Document shall have no force or effect between the parties. EDI transmissions may be sent directly or through any third party service provider ("Provider") with which either party may contract. Each party shall be liable for the acts or omissions of its Provider while handling E-Documents for such party, provided, that if both parties use the same Provider, the originating party shall be liable for the acts or omissions of such Provider as to such E-Document. Some information to be made available to Customer will be specific to Customer and will require Customer's registration with IBM Credit before access is provided. After IBM Credit has approved the registration submitted by Customer, IBM Credit shall provide an ID and password(s) to an individual designated by Customer ("Customer Recipient"). Customer accepts responsibility for the designated individual's distribution of the ID and password(s) within its organization and Customer will take reasonable measures to ensure that passwords are not shared or disclosed to unauthorized individuals. Customer will conduct an annual review of all IDs and passwords to ensure they are accurate and properly authorized. IBM CREDIT MAY CHANGE OR DISCONTINUE USE OF AN ID OR PASSWORD AT ITS DISCRETION AT ANY TIME. E-Documents shall not be deemed to have been properly received and no E-Document shall give rise to any obligation, until accessible to the receiving party at such party's receipt computer at the address specified herein. Upon proper receipt of an E-Document, the receiving party shall promptly transmit a functional acknowledgment in return. A functional acknowledgment shall constitute conclusive evidence that an E-Document has been properly received. If any transmitted E-Document is received in an unintelligible or garbled form, the receiving party shall promptly notify the originating party in a reasonable manner. In the absence of such a notice, the originating party's records of the contents of such E-Document shall control.

(ii) Each party shall use those security procedures which are reasonably sufficient to ensure that all transmissions of E-Documents are authorized and to protect its business records and data from improper access. Any E-Document received pursuant to this Section 10.12 shall have the same effect as if the contents of the E-Document had been sent in paper rather than electronic form. The conduct of the parties pursuant to this Section 10.12 shall, for all legal purposes, evidence a course of dealing and a course of performance accepted by the parties. The parties agree not to contest the validity or enforceability of E-Documents under the provisions of any applicable law relating to whether certain agreements are to be in writing or signed by the party to be bound thereby. The parties agree, as to any E-Document accompanied by the Customer's ID, that IBM Credit can reasonably rely on the fact that such E-Document is properly authorized by Customer. E-Documents, if introduced as evidence on paper in any judicial, arbitration, mediation or administrative proceedings, will be admissible as between the parties to the same extent and under the same conditions as other business records originated and maintained in documentary form. Neither party shall contest the admissibility of copies of E-Documents under either the business records exception to the hearsay rule or the best evidence rule on the basis that the E-Documents were not originated or maintained in documentary form.

CUSTOMER RECIPIENT INFORMATION for Internet transmissions:

(PLEASE PRINT)

Name of Customer's Designated Central Contact Authorized to Receive IDs and Passwords:

e-mail Address:

Phone Number

10.13. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto were upon the same instrument.

10.14. ATTACHMENT A MODIFICATIONS. IBM Credit may modify the Collateral Insurance Amount set forth in Attachment A from time to time by providing Customer with a new Attachment A. Any such new Attachment A shall be effective as of the date specified In the new Attachment A.

10.15. SUBMISSION AND CONSENT TO JURISDICTION AND CHOICE OF LAW, TO INDUCE IBM CREDIT TO ACCEPT THIS AGREEMENT AND THE OTHER DOCUMENTS, THE CUSTOMER HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(A) SUBMITS ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AND ANY OTHER AGREEMENT, OR FOR THE RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS AND ANY FEDERAL DISTRICT COURT IN MASSACHUSETTS.

(B) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREINAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME.

(C) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO CUSTOMER AT ITS ADDRESS SET FORTH IN SECTION 10.12 OR AT SUCH OTHER ADDRESS OF WHICH IBM CREDIT SHALL HAVE BEEN NOTIFIED PURSUANT THERETO.

(D) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT TO SUE IN ANY OTHER JURISDICTION.

(E) AGREES THAT THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS AGREEMENT AND THE OTHER DOCUMENTS SHALL BE GOVERNED BY THE LAWS (WITHOUT GIVING EFFECT TO CONFLICT OF LAW PROVISIONS) OF THE COMMONWEALTH OF MASSACHUSETTS.

10.16. JURY TRIAL WAIVER. EACH OF IBM CREDIT AND THE CUSTOMER HEREBY IRREVOCABLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING (INCLUDING ANY COUNTERCLAIM) OF ANY TYPE IN WHICH IBM CREDIT AND THE CUSTOMER ARE PARTIES AS TO ALL MATTERS ARISING DIRECTLY OR INDIRECTLY OUT OF THIS AGREEMENT OR ANY DOCUMENT, INSTRUMENT OR AGREEMENT EXECUTED IN CONNECTION HEREWITH.

IN WITNESS WHEREOF, the Customer has read this entire Agreement, and has caused its authorized representatives to execute this Agreement and has caused its corporate seal to be affixed hereto as of the date first written above.

IBM CREDIT CORPORATION

PC CONNECTION, INC.

By: /s/ Stephen A. Nichols

By: /s/ Jack L. Ferguson

Print Name: STEPHEN A. NICHOLS

Print Name: Jack L. Ferguson

Title: REGION CREDIT MANAGER

Title: Treasurer, Director of Finance

ATTACHMENT A, EFFECTIVE DATE August, 1999 ("AIF ATTACHMENT A")
TO AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")
DATED August, 1999

Customer: PC Connection, Inc.

I. Fees, Rates and Repayment Terms:

(A) Credit Line: Fifteen Million Dollars (\$15,000,000.00);

(B) Borrowing Base;

100% of the Customer's inventory in the Customer's possession as of the date of determination as reflected in the Customer's most recent Collateral Management Report constituting Products (other than service parts) financed through a Product Advance by IBM Credit, provided, however, IBM Credit has a first priority security interest in such Products and such Products are in new and in un-opened boxes. The value to be assigned to such inventory shall be based upon the Authorized Supplier's invoice price to Customer for Financed Products net of all applicable price reduction credits.

(C) Collateral Insurance Amount: Fifty Million Dollars (\$50,000,000.00)

(D) Delinquency Fee Rate: Prime Rate plus 6.500%

(E) Free Financing Period Exclusion Fee: For each Product Advance made by IBM Credit pursuant to Customer's financing plan where there is no Free Financing Period associated with such Product Advance there will be a fee equal to the Free Financing Period Exclusion Fee. For a 30 day payment plan when Prime Rate is 8% the Free Financing Period Exclusion Fee is 1.08% of the invoice amount. This fee will vary by .0125% with each .25% change in Prime Rate (e.g. Prime Rate of 7.25%, the charge is 1.0425% of the invoice amount). The fee accrues as of the Date of the Note and is payable as stated in the billing Statement.

(F) Shortfall Transaction Fee: Shortfall Amount multiplied by 0.30%

II. Financial Covenants:

Customer must be in compliance with the Minimum Net Income and Minimum Net Worth covenants as set forth and defined in that certain Credit Agreement dated May 29, 1999 by and between Customer and State Street Bank and Trust Company.

AIF ATTACHMENT A TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

III. Additional Conditions Precedent Pursuant to Section 5.1 (I) of the Agreement (continued):

- o A Compliance Certificate as to Customer's compliance with the financial covenants set forth in Attachment A as of the last fiscal month of Customer for which financial statements have been published;
- o A Corporate Secretary's Certificate substantially in the form and substance of Attachment I certifying to, among other items, the resolutions of Customer's Board of Directors authorizing borrowing by Customer.
- o Termination or release of Uniform Commercial Code filing by another creditor as required by IBM Credit;
- o A copy of an all-risk insurance certificate pursuant to Section 7.8 (B) of the Agreement.

AIF ATTACHMENT B TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

Customer: PC Connections, Inc.

I. Liens.

II. Locations of Offices, Records and Inventory.

(A) Principal Place of Business and Chief Executive Office

(B) Locations of Assets, Inventory and Equipment (including warehouses)

Location Leased (Y/N)

III. Fictitious Names.

IV. Organization.

(A) Subsidiaries

| Name | Jurisdiction | Owner | Percent Owned |
|------|--------------|-------|---------------|
|------|--------------|-------|---------------|

AIF ATTACHMENT B TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

(B) Affiliates

| Name | Capacity |
|------|----------|
|------|----------|

V. Judgments or Litigation.

VI. Environmental Matters.

VII. Indebtedness.

AIF ATTACHMENT C TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

COMPLIANCE CERTIFICATE
(SEE ATTACHED)

Customer must submit to IBM Credit, Compliance Certificates, as required pursuant to that certain Credit Agreement dated May 29, 1999 by and between Customer and State Street Bank and Trust Company.

AIF ATTACHMENT D TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

Customer: PC Connections, Inc.

(This page intentionally left blank)

AIF ATTACHMENT E TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

Customer: PC Connections, Inc.

AUTHORIZED SUPPLIERS

Page 7 of 10

AIF ATTACHMENT F TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

Customer: PC Connections, Inc.

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AIF ATTACHMENT G TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

CERTIFICATE OF LOCATION OF COLLATERAL

The undersigned, the (insert title of office held) of (insert Customer's Name) ("insert abbreviated name"), hereby certifies with reference to the Agreement for Inventory Financing, dated (insert date Agreement signed), between (insert Customer's abbreviated name) and IBM Credit Corporation as follows:

(a) The following are all the locations where (insert abbreviated name) presently keeps or sells inventory, equipment or other tangible Collateral:

| LOCATION | LEASE (YES/NO) |
|----------|----------------|
|----------|----------------|

IN WITNESS WHEREOF, I have hereunto set my hand this day of _____
_____, 19__.

(Customer Name)

By: _____

Title: _____

AIF ATTACMENT H TO
AGREEMENT FOR INVENTORY FINANCING ("AIF AGREEMENT")

E-BUSINESS SCHEDULE A ("SCHEDULE A")

CUSTOMER NAME: PC Connections, Inc.

EFFECTIVE DATE OF THIS SCHEDULE A: _____

E-DOCUMENTS AVAILABLE TO SUPPLIERS:

Invoices

Payment Report/Remittance Advisor

E-DOCUMENTS AVAILABLE TO CUSTOMER:

Invoices

Remittance Advisor

Transaction Approval

Billing Statement

Payment Planner

Auto Cash

Statements of Transaction

Common Dispute Form

AMENDMENT TO AGREEMENT FOR INVENTORY FINANCING
(PC Connection Sales Corp. fka PC Connection, Inc.)

This Amendment to Agreement for Inventory Financing is entered into as of February 25, 2000 by and between PC Connection Sales Corp. fka PC Connection, Inc., a Delaware corporation ("Customer") and IBM Credit Corporation ("IBM Credit").

WHEREAS, the Customer and IBM Credit are parties to a certain Agreement for Inventory Financing dated August 17, 1999. as amended from time to time (the "Agreement"); and

WHEREAS, the Customer has engaged in a corporate reorganization which was consummated on or about December 31, 1999, in which, among other things, (i) the Customer formed PC Holdco, Inc. ("Holdco") as its subsidiary, (ii) Holdco formed a transitory subsidiary into which the Customer was merged, which resulted in the Customer being a wholly-owned subsidiary of Holdco, (iii) the Customer formed two new subsidiaries, PC Connection Sales of Massachusetts, Inc. ("Sales-MA") and Merrimack Services Corp. ("Merrimack"), each a Delaware corporation and contributed certain assets to such entities, (iv) the Customer then distributed its stock in Merrimack and its other subsidiary, Comteq Federal, Inc. ("Comteq") to Holdco, and (v) the Customer changed its name to "PC Connection Sales Corp" and Holdco changed its name to "PC Connection, Inc." (the "Restructuring"); and

WHEREAS, the Customer and IBM Credit desire to amend the Agreement on the terms and conditions set forth herein;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Customer and IBM Credit hereby agree as follows:

1. (a) The definitions of "Obligations" and "Purchase Money Security Interest" in Section 1.1 of the Agreement are hereby deleted in their entirety and replaced in their entirety with the following:

"'Obligations': all covenants, agreements, warranties, duties, representations, loans, advances, interest (including interest accruing on or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to Customer, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), fees, reasonable expenses, indemnities, liabilities and Indebtedness of any kind and nature whatsoever now or hereafter arising, owing, due or payable from Customer to IBM Credit; provided however, that notwithstanding the foregoing, the term Obligations shall not include and shall specifically exclude any and all debts to IBM Credit under any and all guarantees by Customer of any obligations of any of Customer's affiliates or subsidiaries to IBM Credit, including, without limitation, those arising under or pursuant to a certain [Guaranty of even date herewith by Customer, PC Connection Sales of Massachusetts, Inc. Merrimack Services Corp. and PC

Connection. Inc. (fka PC Holdco, Inc.)) in favor of you with respect to obligations of Comteq Federal, Inc.

"'Purchase Money Security Interest': any security interest securing Purchase Money Indebtedness, which security interest applies solely to the particular asset acquired with the Purchase Money indebtedness and the proceeds thereof."

(b) Section 1.1 of the Agreement is hereby amended by inserting the following in alphabetical order:

"'Purchase Money Indebtedness': Indebtedness in respect of equipment financing pursuant to purchase money obligations or capitalized leases"

(c) Section 4.1 of the Agreement is hereby deleted in its entirety and replaced in its entirety with the following:

"4.1. Grant To secure Customer's full and punctual payment and performance of the Obligations (including obligations under any leases Customer may enter into, now or in the future, with IBM Credit) when due (whether at the stated maturity, by acceleration or otherwise), Customer hereby grants IBM Credit a security interest in all of Customer's right, title and interest in and to the following property, whether now owned or hereafter acquired or existing and wherever located:

(i) All of Debtor's inventory, which is manufactured or sold by or bearing any trademark or tradename of International Business Machines Corporation or Lexmark International, Inc. or any of their subsidiaries or affiliated companies, whether now owned or hereafter acquired;

(ii) All parts, attachments, accessories, accessions, repossessions, exchanges, substitutions and replacements thereto or thereof;

(iii) All rebates, discounts, credits, refunds and incentive payments, now or hereafter due Debtor, relating and limited to any of the items described in clauses (i) or (ii) above; and

(iv) All cash proceeds of and insurance payable by loss of or damage to any of the items described in clauses (i), (ii) or (iii) above.

The foregoing clauses (i), (ii), (iii) and (iv) shall not include, and specifically exclude, any and all accounts, promissory notes, installment contracts, contract rights, chattel paper, instruments or other rights to payment, except for claims arising specifically from clauses (iii) or (iv) above. "Proceeds" as defined in the Uniform Commercial Code are specifically excluded, except to the extent specifically included in clauses (i) through (iv) above.

All of the above assets shall be collectively defined herein as the "Collateral". Customer covenants and agrees with IBM Credit that: (a) the security constituted to by this Agreement is in addition to any other security from time to time held by IBM Credit and (b) the security hereby created is a continuing security interest and will cover and secure the payment of the Obligations both present and future of Customer to IBM Credit."

(d) Section 6.2 of the Agreement is hereby amended by deleting the second sentence thereof.

(e) Section 7.5 of the Agreement is hereby amended by deleting clauses (C) and (D) thereof in their entirety.

(f) Section 7.6 of the Agreement hereby amended by deleting clause (B) thereof in its entirety.

(g) Section 7.13 of the Agreement is hereby deleted in its entirety.

(h) Clause (B) of Section 9.1 of the Agreement is hereby amended by inserting the word "material" after the word "any" and before the word "term".

(i) Clause (L) of Section 9.1 of the Agreement is hereby amended by inserting the phrase "in excess of \$ 1,000,000" after the word "indebtedness" in the first line thereof.

(j) Section 9.3 of the Agreement is hereby deleted in its entirety and replaced with the following: "9.3 Remedies. Upon the occurrence and during the continuance of any Event of Default which has not been waived in writing by IBM Credit, IBM Credit may exercise any and all rights and remedies to which it is entitled hereunder or under applicable law."

(k) Section 10.8 of the Agreement is hereby deleted in its entirety.

2. Effective as of the date of the Restructuring, IBM Credit hereby consents to the Restructuring and waives any notice thereof which may be required under the Agreement. IBM Credit further consents to (a) the issuance by Customer or any of its affiliates of any indebtedness to or guarantees to (i) IBM Credit, (ii) lenders under any working capital facility of Customer or any of its affiliates, or (iii) Deutsche Financial Services Corporation, or (b) the granting of any liens to IBM Credit or Deutsche Financial Services Corporation.

3. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect. Customer hereby ratifies and confirms the Agreement as amended hereby and agrees that the Agreement as amended hereby represents a valid and enforceable obligation of Customer.

4. This Amendment shall be governed by and interpreted in accordance with the laws of the Commonwealth of Massachusetts.

5. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

IN WITNESS WHEREOF, Customer and IBM Credit have executed this Amendment to Agreement for Wholesale Financing as of the date first set forth above.

PC CONNECTION SALES CORP.
fka PC Connection, Inc.

By: /s/ Jensen McDougal

Name: Jensen McDougal

Its: Vice President

IBM CREDIT CORPORATION

By: -----

Name: -----

Its: -----

IN WITNESS WHEREOF, Customer and IBM Credit have executed this Amendment to Agreement for Wholesale Financing as of the date first set forth above.

PC CONNECTION SALES CORP.
fka PC Connection, Inc.

By: -----
Name: -----
Its: -----

IBM CREDIT CORPORATION

By: /s/ Stephen A. Nichou
Name: -----
 STEPHEN A. NICHOU
Its: -----
 REGION CREDIT MGR

IBM Credit Corporation

GUARANTY
(For PC Connection Sales Corp.)

TO: IBM CREDIT CORPORATION
1500 RiverEdge Parkway
Atlanta, GA 30328

DATE: February 25, 2000

Gentlemen:

In consideration of credit and financing accommodations granted or to be granted by you to PC Connection Sales Corp. (fka PC Connection, Inc.) ("Dealer"), which is in the best interest of the undersigned, and for other good and valuable consideration received, the undersigned guaranties to you, jointly and severally, the prompt and unconditional payment by Dealer of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Dealer is obligated to you in connection with that certain Agreement for Inventory Financing dated August 17, 1999, as amended and in effect from time to time, heretofore, now, or hereafter owed or arising ("Liabilities"), whether the liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. The undersigned also agrees to indemnify you and hold you harmless against any losses you may sustain and expenses you may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Dealer, except those arising out of your own gross negligence or willful misconduct.

If Dealer fails to pay any Liabilities to you when due, all Liabilities to you shall then be deemed to have become immediately due and payable, and the undersigned shall then pay upon demand the full amount of all sums owed to you by Dealer, together with all reasonable expenses, including reasonable attorney's fees.

The liability of the undersigned is direct and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment of any security agreement or any other agreement between you and Dealer, or any change in the manner, place or terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, the release or non-perfection of any security thereunder, any change in Dealer's financial condition, or the interruption of business relations between you and Dealer. This Guaranty shall continue for so long as any sums owing to you by Dealer remain outstanding and unpaid, unless terminated in the manner provided below. The undersigned acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between you and Dealer or any other person creating or reserving any lien, encumbrance or security interest in any property of Dealer or any other person as security for any obligation of Dealer. You need not exhaust your rights or recourse against Dealer or any other person or any security you may have at any time before being entitled to payment from the undersigned.

This Guaranty is assignable, and shall inure to the benefit of and bind you and our respective successors and assigns.

If Dealer hereafter is incorporated, acquired by a corporation, dissolved, or otherwise undergoes any change in its management, ownership, identity or organizational structure, this Guaranty shall continue to extend to any Liabilities of the Dealer or such resulting corporation, dissolved corporation, or new or changed legal entity or identity to you.

The undersigned waives: notice of the acceptance of this Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance, and dishonor; notices of amount of indebtedness of Dealer outstanding at any time; notices of the number and amount of advances made by you to Dealer in reliance on this Guaranty; notices of any legal proceedings against Dealer; notice and hearing as to any

prejudgment remedies; and any other demands and notices required by law. The undersigned also waives any and all rights in and notices or demands relating to any collateral now or hereafter securing any of the Liabilities, including, but not limited to, all rights, notices or demands relating, whether directly or indirectly, to the sale or other disposition of any or all of such collateral or the manner of such sale or other disposition. All waivers by the undersigned herein shall survive any termination or revocation of this Guaranty.

The undersigned has made an independent investigation of the financial condition of Dealer and gives this Guaranty based on that investigation and not upon any representations made by you. The undersigned acknowledges that it has access to current and future Dealer financial information which will enable the undersigned to continuously remain informed of Dealer's financial condition. The undersigned also consents to and agrees that the obligations under this Guaranty shall not be affected by your, subsequent increases or decreases in the credit line that you may grant to Dealer: substitutions, exchanges or releases of all or any part of the collateral now or hereafter securing any of the Liabilities; sales or other dispositions of any or all of the collateral now or hereafter securing any of the Liabilities without demands, advertisement or notice of the time or place of the sales or other dispositions; realizing on the collateral; or purchases of all or any part of the collateral for your own account.

This Guaranty and any and all obligations, liabilities, terms and provisions herein shall survive any and all bankruptcy or insolvency proceedings, actions and/or claims brought by or against Dealer, whether such proceedings, actions and/or claims are federal and/or state.

This Guaranty is submitted by the undersigned to you (for your acceptance or rejection thereof) at your above specified office: as an offer by the undersigned to guaranty the credit and financial accommodations provided by you to Dealer. If accepted, this Guaranty shall be deemed to have been made at your above specified office. This Guaranty and all obligations pursuant thereto, shall be governed and controlled as to interpretation, enforcement, validity, construction, effect and in all other respects by the laws of the state of your above specified office. The undersigned, to induce you to accept this Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Guaranty may be litigated, at your sole discretion and election, in courts within the state of your above specified office. The undersigned consents and submits to the jurisdiction of any local, state or federal court located within that state. The undersigned waives any right to transfer or change the venue of any litigation brought against the undersigned by you in accordance with this paragraph.

Any delay by you, or your successors or assigns in exercising any or all rights granted you under this Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by you, your successors or assigns, to exercise any or all rights granted you under this Guaranty shall not operate as a waiver of your right to exercise any or all of them later.

This document contains the full agreement of the parties concerning the guaranty of Dealer's Liabilities and can be varied only by a document signed by all the parties hereto. The undersigned may terminate this Guaranty by notice to you in writing, the termination to be effective thirty (30) days after receipt and acknowledgment thereof by you, but the termination shall in no manner terminate the undersigned guaranty of Liabilities arising prior to the effective date of termination.

WE AGREE THAT ANY ACTION, SUIT OR PROCEEDING RELATING DIRECTLY OR INDIRECTLY TO THIS GUARANTY OR THE RELATIONSHIP BETWEEN YOU AND US, WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. THUS, WE HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH ACTION, SUIT OR PROCEEDING. WITNESS (as to all except Comteq):

WITNESS (as to all except Comteq):

----- PC CONNECTION, INC.(f/k/a PC Holdco, Inc.)

(Print Name _____) By: _____
Address: _____ (Print Name _____)
----- Title: _____

----- PC CONNECTION SALES OF MASSACHUSETTS, INC.
By: _____
(Print Name _____)
Title: _____

MERRIMACK SERVICES CORP.
By: _____
(Print Name _____)
Title: _____

Guarantor's Address (as to all the foregoing):

WITNESS (as to Comteq)
Dawn M Cranford

----- COMTEQ FEDERAL, INC.
(Print Name Dawn M Cranford _____) By: /s/ Gary Sorkin
Address 7503 Standish Pl. _____ (Print Name Gary Sorkin _____)
Rockville, MD 20855 _____ Title: President

----- Guarantor's Address (as to Comteq only):

7503 Standish Pl.

Rockville, MD 20855

AGREEMENT FOR WHOLESALE FINANCING
(SECURITY AGREEMENT)

TO IBM CREDIT CORPORATION

DATE: October 12, 1993

In the course of our business, we acquire inventory and want you to finance our purchase of such inventory under the following terms and conditions:

1. You may in your sole discretion from time to time decide the amount of credit you extend to us, notwithstanding any prior course of conduct between us. You may combine all of your advances to make one debt owed by us.

2. You may in your sole discretion decide the amount of funds, if any, you will advance on any inventory we may seek to acquire. We agree that any decision to advance funds on any inventory will not be binding on you until such time as the funds are actually advanced.

3. All financing provided by you to us will be used exclusively for the acquisition of inventory bearing certain trademarks or tradenames for which you have approved us to receive financing pursuant to the terms of this Agreement (the "Approved Inventory"). From time to time, you will identify such trademarks and tradenames to us in writing. When you advance funds, you may send us a Statement of Transaction or other statement if you choose. If you do, we will have acknowledged the debt to be an account stated and we will have agreed to the terms of the financing programs identified on such statement, unless we notify you in writing of any question or objection within seven (7) days after it is mailed to us.

4. To secure payment of all of our current and future debts to you whether under this Agreement, any guaranty that we now or hereafter execute, or any other agreement between us, whether direct or contingent, we grant you a security interest in all of our inventory, equipment, fixtures, accounts, contract rights, chattel paper, instruments, reserves, documents of title, deposit accounts and general intangibles, whether now owned or hereafter acquired, and all attachments, accessories, accessions, substitutions and/or replacements thereto and all proceeds thereof. All of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code and are hereinafter collectively referred to as the "Goods". This security interest is also granted to secure our debts to all of your affiliates. We will hold all of the Goods financed by you, and the proceeds thereof, in trust for you and we will immediately account for and remit directly to you all such proceeds when payment is required under the terms of our financing program with you. You may directly collect any amount owed to us with respect to the Goods and credit us with all sums received by you. Your title, lien or security interest will not be impaired by any payments we make to the seller or anyone else or by our failure or refusal to account to you for proceeds.

5. Our principal place of business is located at: 7915 West Park Drive, McLean, VA 22102 and we represent that our business is conducted as a SOLE PROPRIETORSHIP, PARTNERSHIP, CORPORATION (check applicable term). We will notify you immediately of any change in our identity, name, form of ownership or management, and of any change in our principal place of business, or any additions or discontinuances of other business locations. The Goods will be kept at our principal place of business. We will immediately notify you if any of the Goods are kept at any other address. We and our predecessors have done business during the last six (6) months only under the following name: CompuCom Federal Systems Group. This paragraph is for informational purposes only, and is not in any manner intended to limit the extent of your security interest in the Goods.

6. We promise that the Goods are and will remain free from all claims and liens superior to yours and that we will defend the Goods against all other claims and demands. We will not rent, lease, lend, demonstrate, pledge, transfer or secrete any of the Goods or use any of the Goods for any purpose other than exhibition and sale to buyers in the ordinary course of business, without your prior written consent. We will execute all documents you may request to confirm or perfect your security interest in the Goods. We warrant and represent that we are not in default in the payment of any principal interest or other charges relating to any indebtedness owed to any third party, and no event has occurred under the terms of any agreement, document, promissory note or other instrument, which with or without the passage of time and/or the giving of notice constitutes or would constitute an event of default thereunder. Each financial statement that we submit to you is and will be correct and will accurately represent our financial condition. We further acknowledge your reliance on the truthfulness and accuracy of each financial statement that we submit to you in your extension of various financial accommodations to us.

7. We will pay all taxes, license fees, assessments and charges for the Goods when due. We will immediately notify you of any loss, theft, or destruction of or damage to any of the Goods. We will be responsible for any loss, theft or destruction of Goods. We will keep the Goods insured for their full insurable value against loss or damage under an "all risk" insurance policy. We will obtain insurance under such terms and in amounts as you may specify, from time to time, with companies acceptable to you, with a loss-payee or mortgagee clause payable to you to the extent of any loss to the Goods and containing a waiver of all defenses against us that is acceptable to you. We agree to provide you with written evidence of the required insurance coverage and loss-payee or mortgagee clause. We assign to you all amounts owed to us under any insurance policy, and we direct any insurance company to make payment directly to you to be applied to the unpaid debt owed you. We further grant you an irrevocable power of attorney to endorse any checks or drafts and sign and file all of the necessary papers, forms and documents to initiate and settle any insurance claims with respect to the Goods. If we fail to pay any of the above-referenced costs, charges, or insurance premiums, or if we fail to insure the Goods, you may pay such costs, charges and insurance premiums, and the amounts paid will be considered an additional debt owed by us to you.

8. You have the right to enter upon our premises from time to time, as you in your sole discretion may determine for your sole benefit, and all without any advance notice to us, to: examine the Goods, appraise them as security; verify their condition and non-use; verify that all Goods have been properly accounted for; verify that we have complied with all terms and provisions of this Agreement; and assess, examine, and make copies of our books and records. Any collection by you of any amounts we owe under our financing programs with you at or during your examination of the Goods does not relieve us of our continuing obligation to pay our indebtedness owed to you in accordance with the terms of such financing programs.

9. We agree to immediately pay you the full amount of the principal balance owed you on each item of inventory financed by you at the time such inventory is sold, lost, stolen, destroyed, or damaged, whichever occurs first, unless you have agreed in writing to provide financing to us on other terms. We also agree to provide you, upon your request, an inventory report which describes all the Approved Inventory in our possession (excluding any inventory financed by you under the Demonstration and Training Equipment Financing Option and the Rental Equipment Financing Option). Regardless of the terms of any scheduled payment financing program with you, if you determine, after conducting an inspection of all of our inventory, that the current outstanding indebtedness owed by us to you exceeds the aggregate wholesale invoice price of the Approved Inventory in our possession, we agree to immediately pay to you an amount equal to the difference between such outstanding indebtedness and the aggregate wholesale invoice price of such inventory. We will make all payments to you at your appropriate branch office. Any checks or other instruments delivered to you to be applied against our outstanding obligations will constitute conditional payment until the funds represented by such instruments are actually received by you. You may apply payments to reduce finance charges first and then principal, irrespective of our instructions. Further, you may apply principal payments to the oldest (earliest) invoice for the inventory financed by you, but, in any case, all principal payments will first be applied to such inventory which is sold, lost, stolen, destroyed, damaged, or otherwise disposed of. If we sign any instrument for the amount of credit extended, it will be evidence of our obligation to pay and will not be payment. Any discount, rebate, bonus, or credit for the inventory granted to us by any third party will not, in any way, reduce the debt we owe you, until you have received payment in cash.

10. During each year or part of a year in which you have extended credit to us, we will pay you finance charges on the total amount of credit extended to us in the amount agreed to between us from time to time. The period, during which any third party provides a finance charge subsidy for us, will be included in the calculation of the annual percentage rate of the finance charges. Such finance charges may be applied by you to cover any amounts expended for your: appraisal and examination of the Goods; maintenance of facilities for payment; assistance in support of our retail sales; your commitments to manufacturers or distributors to finance shipments of Goods to us; recording and filing fees; expenses incurred in obtaining additional collateral or security; and any costs and expenses incurred by you arising out of the financing you extend to us. We also agree to pay you additional charges which will include: late payment fees; flat charges; charges for receiving NSF checks from us; renewal charges; and any other charges applicable to our financing program with you. Unless we hereafter otherwise agree in writing, the finance charge and additional charges agreed upon will be your applicable finance charge and additional charges for the class of Goods involved, prevailing from time to time at your principal place of business. You will send us, at monthly or other intervals, a statement of all charges due on our account with you. We will have acknowledged the charges due, as indicated on the statement, to be an account stated, unless we object in writing to you within seven (7) days after it is mailed to us. This statement may be adjusted by you at any time to conform to applicable law and this Agreement. If any manufacturer or distributor fails to provide a finance charge subsidy for us, as agreed, we will be responsible for and pay to you all finance charges billed to our account.

11. Any of the following events will constitute a default by us under this Agreement: we breach any of the terms, warranties or representations contained in this Agreement or in any other agreements between us or between us and any of your affiliates; any guarantor of our indebtedness to you under this Agreement or any other agreements breaches any of the terms, warranties or representations contained in any guaranty or other agreements between any guarantor and you; any representation, statement, report or certificate made or delivered by us or any of our representatives, employees or agents or by any guarantor to you is not true and correct; we fail to pay any of the liabilities or indebtedness owed to you or any of your affiliates when due and payable under this Agreement or under any other agreements between us or between us and any of your affiliates; you determine that you are insecure with respect to any of the Goods or the payment of our debt owed to you; we abandon the Goods or any part thereof; we or any guarantor become in default in the payment of any indebtedness owed to any third party; a judgement issues on any money demand against us or any guarantor; an attachment, sale or seizure is issued against us or any of the Goods; any part of the Goods are seized or taken in execution; the death of the undersigned if the business is operated as a sole proprietorship or partnership, or the death of any guarantor; we cease or suspend our business; we or any guarantor make a general assignment for the benefit of creditors; we or any guarantor become insolvent or voluntarily or involuntarily become subject to the Federal Bankruptcy Code, state insolvency laws or any act for the benefit of creditors; any receiver is appointed for any of our or any guarantor's assets, or any guaranty pertaining to our indebtedness to you is terminated for any reason whatsoever; we lose any franchise, permission, license or right to sell or deal in any Goods which you finance; we or any guarantor misrepresent our respective financial condition or organizational structure; or you determine, in your sole discretion, that the Goods, any other collateral given to you to secure our indebtedness to you, or our or any guarantor's net worth has decreased in value, and we have been unable, within the time period prescribed by you, to either provide you with additional collateral in a form and substance satisfactory to you or reduce our total indebtedness by an amount sufficient to satisfy you. In the event of a default:

(a) You may, at any time at your election, without notice or demand to us do any one or more of the following: declare all or any part of the indebtedness we owe you immediately due and payable, together with all court costs and all costs and expenses of your repossession and collection activity, including, but not limited to, all attorney's fees; exercise any or all rights of a secured party under applicable law; and/or cease making any further financial accommodations or extending any additional credit to us. All of your rights and remedies are cumulative .

(b) We will segregate, hold and keep the Goods in trust, in good order and repair, only for your benefit, and we will not exhibit, transfer, sell, further encumber, otherwise dispose of or use for any other purpose whatsoever any of the Goods.

(c) Upon your oral or written demand, we will immediately deliver the Goods to you, in good order and repair, at a place specified by you, together with all related documents; or you may, in your sole discretion and without notice or demand to us, take immediate possession of the Goods, together with all related documents.

(d) We waive and release: any claims and causes of action which we may now or ever have against you as a direct or indirect result of any possession, repossession, collection or sale by you of any of the Goods and the benefit of all valuation, appraisal and exemption laws. If you seek to take possession of any of the Goods by court process, we irrevocably waive any notice, bonds, surety and security relating thereto required by any statute, court rule or otherwise.

(e) We appoint you or any person you may delegate as our duly authorized Attorney-In-Fact to do, in your sole discretion, any of the following: endorse our name on any notes, checks, drafts or other forms of exchange received as payment on any Goods for deposit in your account; sell, assign, transfer, negotiate, demand, collect, receive, settle, extend or renew any amounts due on any of the Goods; and exercise any rights we have in the Goods.

If we bring any action or assert any claim against you which arises out of this Agreement, any other agreement or any of our business dealings, in which we do not prevail, we agree to pay you all costs and expenses of your defense of such action or claim including, but not limited to, all attorney's fees. If you fail to exercise any of your rights or remedies under this Agreement, such failure will in no way or manner waive any of your rights or remedies as to any past, current or future default.

12. We agree that if you conduct a private sale of any Goods by soliciting bids from ten (10) or more other dealers or distributors in the type of Goods repossessed by or returned to you hereunder, any sale by you of such property in bulk or in parcels within 120 days of (a) your taking physical possession and control of such Goods or (b) when you are otherwise authorized to sell such Goods, whichever occurs last, to the bidder submitting the highest cash bid therefor, will be deemed to be a commercially reasonable means of disposing of the same. We agree that commercially reasonable notice of any public or private sale will be deemed given to us if you send us a notice of sale at least seven (7) days prior to the date of any public sale or the time after which a private sale will be made. If you dispose of any such Goods other than as herein contemplated, the commercial reasonableness of such sale will be determined in accordance with the provisions of the Uniform Commercial Code as adopted by the state whose laws govern this Agreement.

SECRETARY'S CERTIFICATE OF RESOLUTION

I certify that I am the Secretary and the official custodian of certain records, including the certificate of incorporation, charter, by-laws and minutes of the meeting of the Board of Directors of the corporation named below, and the following is a true, accurate and compared extract from the minutes of the Board of Directors of the corporation adopted at a special meeting thereof held on due notice, at which meeting there was present a quorum authorized to transact the business described below, and that the proceedings of the meeting were in accordance with the certificate of incorporation, charter and by-laws of the corporation, and that they have not been revoked, annulled or amended in any manner whatsoever.

Upon motion duly made and seconded, the following resolution was unanimously adopted after full discussion: "RESOLVED, That the several officers, directors and agents of this corporation, or any one or more of them, are hereby authorized and empowered on behalf of this corporation: to obtain financing from IBM Credit Corporation ("IBM Credit") in such amounts and on such terms as such officers, directors or agents deem proper; to enter into security and other agreements with IBM Credit relating to the terms upon which financing may be obtained and security to be furnished by this corporation therefor; from time to time to supplement or amend any such agreements; and from time to time to pledge, assign, guaranty, mortgage, grant security interest in and, otherwise transfer to IBM Credit as collateral security for any obligations of this corporation to IBM Credit and its affiliated companies, whenever and however arising, any assets of this corporation, whether now owned or hereafter acquired; hereby ratifying, approving and confirming all that any of said officers, directors or agents have done or may do in the premises."

IN WITNESS WHEREOF, I have executed and affixed the seal of the corporation on the date stated below.

Dated: October 12, 1993

Stanley P. Weintraub

Secretary

COMTEQ FEDERAL, INC.

Corporate Name

10-12-93

AMENDMENT
TO
AGREEMENT FOR WHOLESALE FINANCING

This Amendment ("Amendment") to Agreement for Wholesale Financing is made as of December __, 1999 by and between Comteq Federal, Inc., a Maryland corporation ("Customer") and IBM Credit Corporation, a Delaware corporation ("IBM Credit").

RECITALS:

WHEREAS, Customer and IBM Credit have entered into that certain Agreement for Wholesale Financing ("Agreement") dated as of October 10, 1993; and

WHEREAS, Customer and IBM Credit have agreed to modify the Agreement as more specifically set forth below, upon and subject to the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, In consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Customer and IBM Credit hereby agree as follows:

Section 1. Definitions. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement.

Section 2. Amendment. The Agreement is hereby amended by deleting the first paragraph of Section 11 of the Agreement in its entirety and substituting in lieu thereof is the following:

"11. Any of the following events will constitute an event of default by us under this Agreement: we breache any of the terms, warranties or representations contained in this Agreement or in any other agreements between us and you or between us and any of your affiliates; any guarantor of our obligations to you under this Agreement or any other agreements breaches any of the terms, warranties or representations contained in such guaranty or other agreements between such guarantor and you; any representation, statement, report or certificate made or delivered by us or any of our owners, representatives, employees or agents or by any guarantor to you is not true and correct; we fail to pay any of the liabilities or obligations owed to you or any of your affiliates when due and payable under this Agreement or under any other agreements between us and you or between us and any of your affiliates; you determine that you are insecure with respect to any of the Goods or the payment of our obligations owed to you; we abandon the Goods or any part thereof; we or any guarantor becomes in default in the payment of any indebtedness owed to any third party; there shall occur an Event of Default pursuant to and as defined in any financing agreement between PC Connection, Inc., a Delaware corporation and guarantor and State Street Bank dated as of May 29, 1999 or any successor financing agreement thereto, a judgment issues on any money demand against us or any guarantor; an attachment, sale or seizure is issued against us or any of the Goods; any part of the Goods is seized or taken in execution; the death of the undersigned if the business is operated as a sole proprietorship, or the death of a partner if the business is operated as a partnership, or the death of any guarantor; we cease or suspend our business; we or any guarantor makes a general assignment for the benefit of creditors; we or any guarantor becomes insolvent or voluntarily or involuntarily becomes subject to the Federal Bankruptcy Code, state insolvency laws or any act for the benefit of creditors; any receiver is appointed for any of our or any guarantor's assets, or any guaranty pertaining to our obligations to you is terminated for any reason whatsoever, any guarantor disclaims any obligations under any guaranty; we lose any franchise, permission, license or right to sell or deal in any Goods which you finance; we or any guarantor misrepresents its respective financial condition or organizational structure; or you determine, in your sole discretion, that the Goods, any other collateral given to you to secure our obligations to you, any guarantor's guaranty, or our or any guarantor's net worth has decreased in value, and we have been unable, within the time period prescribed by you, to either provide you with additional collateral in a form

and substance satisfactory to you or reduce our total obligations by an amount sufficient to satisfy you. Following an event of a default."

Section 3. Ratification of Agreement. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect.

Section 4. Governing Law. This Amendment shall be governed by and interpreted in accordance with the laws which govern the Agreement.

Section 5. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

IN WITNESS WHEREOF, this Amendment has been executed by duly authorized officers of the undersigned as of the day and year first above written.

IBM CREDIT CORPORATION

COMTEQ FEDERAL, INC.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

ATTEST:

ATTEST:

Print Name: _____

Print Name: _____

EXHIBIT A, EFFECTIVE DATE December 2, 1999 "FPP EXHIBIT A"),
TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING - FLEXIBLE PAYMENT PLAN
("FPP ADDENDUM") DATED December 22, 1993

Customer's Name ComTeq Federal, Inc.

1. FPP Credit Line Fees, Rates and Repayment Terms:

- (a) FPP Application Processing Fee: \$2,500.00;
- (b) FPP Credit Line: Nine Million Five Hundred Thousand Dollars (\$9,500,000.00);
- (c) Valuation Percentage:
 - (i) 85% of the amount of Customer's Eligible Accounts as of the date of determination as reflected in the Customer's most recent Collateral Report;
- ** Government receivables will be eligible up to and including 120 days.
- (d) Payment Due Dates will be the 5th, 15th, and 25th of each calendar month;
- (e) Monthly Service Fee: \$500.00;
- (f) Financing Period: 100 days from the date of each invoice;
- (g) No-Charge Financing Days: For products subsidized by a manufacturer there will be no charge for a certain period of time from the date of the invoice; or

Basis Points: Unless informed otherwise, for products not subsidized by a manufacturer there will be a one-time charge of 25 basis points for each invoice which is in addition to the Finance Charge Rate beginning on day 1;
- (h) FPP Financing Charge: Prime Rate plus 1.50%;

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

1. FPP Credit Line Fees, Rates and Repayment Terms (cont):

- (i) FPP Working Capital Option ("WCO"): Outstanding advances authorized up to the amount of eligible collateral. Total Outstanding Indebtedness not to exceed the FPP credit line amount;
- (j) WCO Term: 180 days;
- (k) FPP WCO Financing Charge: Prime Rate plus 1.50%;
- (l) Maximum Payment Reschedule Option ("PRO") Term: 30 days;
- (m) FPP PRO Financing Charge: Prime Rate plus 1.50%
- (n) Delinquency Fee: Prime Rate plus 6.50%;
- (o) ** Shortfall Transaction Fee: Shortfall Amount multiplied by 0.30%.

Financing Charges will be based on the Average Daily Balance ("ADB") and will be billed monthly. WCO and PRO Advances will become part of Customer's Outstanding Indebtedness to IBM Credit.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESAL FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

2. Documentation Requirements: ("Other Documents")

- o Executed Contingent Blocked Account Amendment to a Lockbox Agreement;
- o Subordination or Intercreditor Agreements from all creditors having a lien which is superior to IBM Credit's in any First Assets;
- o Executed Waiver of Landlord Lien for all premises in which a landlord has the right of levy for rent;
- o Any and all other documents and/or agreements IBM Credit, in its sole discretion, deems necessary.
- o Fiscal year-end financial statements of Customer as of December 31, 1999 and delivered to IBM Credit no later than 90 days after fiscal year end.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

2. Documentation Requirements (continued):

Customer must submit the following within sixty (60) days after the end of Customer's fiscal year, and as requested by IBM Credit from time to time:

- o A pro forma income statement, balance sheet and cash flow statement for the next 12 months or through the current fiscal year and the following fiscal year; and
- o business narrative that at a minimum should include an explanation on how Customer plans to accomplish significant changes in revenue, gross profit margin, expenses, operating profit margin and net profit. The Customer's business strategy, anticipated business climate, and the headcount that will produce the projected financial results should also be included.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

3. Financial Covenants:

Definitions: The following terms shall have the following respective meanings in this Exhibit. All amounts shall be determined in accordance with generally accepted accounting principles (GAAP).

Consolidated Net Income shall mean, for any period, the net income (or loss), after taxes, of Customer on a consolidated basis for such period determined in accordance with GAAP.

Current shall mean within the on-going twelve month period.

Current Assets shall mean assets that are cash or expected to become cash within the on-going twelve months.

Current Liabilities shall mean payment obligations resulting from past or current transactions that require settlement within the on-going twelve month period. All indebtedness to IBM Credit shall be considered a Current Liability for purposes of determining compliance with the Financial Covenants.

EBITDA shall mean, for any period (determined on a consolidated basis in accordance with GAAP), (a) the Consolidated Net Income of Customer for such period, plus (b) each of the following to the extent reflected as an expense in the determination of such Consolidated Net Income: (i) the Customer's provisions for taxes based on income for such period; (ii) Interest Expense for such period; and (iii) depreciation and amortization of tangible and intangible assets of Customer for such period.

Fixed Charges shall mean, for any period, an amount equal to the sum, without duplication, of the amounts for such as determined for the Customer on a consolidated basis, of (i) scheduled repayments of principal of all Indebtedness (as reduced by repayments thereon previously made), (ii) Interest Expense, (iii) capital expenditures (iv) dividends, (v) leasehold improvement expenditures and (vi) all provisions for U.S. and non U.S. Federal, state and local taxes.

Fixed Charge Coverage Ratio shall mean the ratio as of the last day of any fiscal period of (i) EBITDA as of the last day of such fiscal period to (ii) Fixed Charges.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESale FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

3. Financial Covenants (continued):

Interest Expense shall mean, for any period, the aggregate consolidated interest expense of Customer during such period in respect of Indebtedness determined on a consolidated basis in accordance with GAAP, including, without limitation, amortization of original issue discount on any Indebtedness and of all fees payable in connection with the incidence of such Indebtedness (to the extent included in interest expense), the interest portion of any deferred payment obligation and the interest component of any capital lease obligations.

Long Term shall mean beyond the on-going twelve month period.

Long Term Assets shall mean assets that take longer than a year to be converted to cash. They are divided into four categories: tangible assets, investments, intangibles and other.

Long Term Debt shall mean payment obligations of indebtedness which mature more than twelve months from the date of determination, or mature within twelve months from such date but are renewable or extendible at the option of the debtor to a date more than twelve months from the date of determination.

Net Profit after Tax shall mean Revenue plus all other income, minus all costs, including applicable taxes.

Revenue shall mean the monetary expression of the aggregate of products or services transferred by an enterprise to its customers for which said customers have paid or are obligated to pay, plus other income as allowed.

Subordinated Debt shall mean Customer's indebtedness to third parties as evidenced by an executed Notes Payable Subordination Agreement in favor of IBM Credit.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

3. Financial Covenants (continued):

Tangible Net Worth shall mean:

Total Net Worth minus;

- (a) goodwill, organizational expenses, pre-paid expenses, deferred charges, research and development expenses, software development costs, leasehold expenses, trademarks, trade names, copyrights, patents, patent applications, privileges, franchises, licenses and rights in any thereof, and other similar intangibles (but not including contract rights) and other current and non-current assets as identified in Customer's financial statements;
- (b) all accounts receivable from employees, officers, directors, stockholders and affiliates; and
- (c) all callable/redeemable preferred stock.

Total Assets shall mean the total of Current Assets and Long Term Assets.

Total Liabilities shall mean the Current Liabilities and Long Term Debt less Subordinated Debt, resulting from past or current transactions, that require settlement in the future.

Total Net Worth (the amount of owner's or stockholder's ownership in an enterprise) is equal to Total Assets minus Total Liabilities.

Working Capital shall mean Current Assets minus Current Liabilities.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

3. Non-Financial Covenants:

Customer agrees to maintain standard all-risk insurance coverage on all locations in the amount of at least Five Hundred Thousand Dollars (\$500,000.00) and provide IBM Credit with a copy of the insurance policy. IBM Credit Corporation must be named as a lender loss payee.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESAL FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

4. Financial Report Preparation Requirements:

Reports due under the terms of the FPP Addendum shall be prepared as follows:

Annual Reports shall be submitted no later than ninety (90) days after the close of the fiscal year.

Quarterly Reports shall be prepared internally by the Customer and delivered to IBM Credit no later than forty-five (45) days after the close of the quarter.

Customer must submit the following within sixty (60) days after the end of Customer's fiscal year, and as requested by IBM Credit from time to time:

- o A pro forma income statement, balance sheet and cash flow statement for the next 12 months or through the current fiscal year and the following fiscal year; and
- o business narrative that at a minimum should include an explanation on how Customer plans to accomplish significant changes in revenue, gross profit margin, expenses, operating profit margin and net profit. The Customer's business strategy, anticipated business climate, and the headcount that will produce the projected financial results should also be included.

AMENDMENT TO
ADDENDUM TO AGREEMENT FOR WHOLESale FINANCING
- FLEXIBLE PAYMENT PLAN

This AMENDMENT TO THE ADDENDUM TO AGREEMENT FOR WHOLESale FINANCING - FLEXIBLE PAYMENT PLAN (this "Amendment") is made as of December __, 1999 by and between Comteq Federal, Inc., a Maryland corporation ("Customer") and IBM Credit Corporation, a Delaware corporation ("IBM Credit").

RECITALS:

WHEREAS, Customer and IBM Credit have entered into that certain Agreement for Wholesale Financing ("AWF") dated as of October 10, 1993, and the Addendum to Agreement for Wholesale Financing - Flexible Payment Plan ("FPP") dated as of December 2, 1993 (both as amended, supplemented or otherwise modified from time to time, the "Agreement");

WHEREAS, Customer and IBM Credit have agreed to modify the Agreement as more specifically set forth below, upon and subject to the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the premises set forth herein, and for other good and valuable consideration, the value and sufficiency of which is hereby acknowledged, the parties hereto agree that the Agreement is amended as follows:

Section 1. Definitions. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement.

Section 2. Amendment. The Agreement is hereby amended by deleting Exhibit A to the Agreement in its entirety and substituting, in lieu thereof, the Exhibit A attached hereto. Such new Exhibit A shall be effective as of the date specified in the new Exhibit A. The changes contained in the new Exhibit A include, without limitation, that the Valuation Percentage as set forth in the Agreement shall be reduced by an amount that is equal to One Million Dollars (\$1,000,000).

Section 3. Representations and Warranties. Customer makes to IBM Credit the following representations and warranties, all of which are material and are made to induce IBM Credit to enter into this Amendment.

A. All representations made by Customer in the Financing Agreement were true, accurate and complete in every respect as of the date made, and after giving effect to this Amendment, all representations made by Customer in the Financing Agreement are true, accurate and complete in every material respect as of the date hereof, and do not fail to disclose any material fact necessary to make the representations not misleading.

B. The execution and delivery of this Amendment do not violate or cause Customer not to be in compliance with the terms of any agreement to which Customer is a party.

Section 4. Ratification of Agreement. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect. Customer hereby, ratifies, confirms and agrees that the Agreement, as amended hereby, represents a valid and enforceable obligation of Customer, and is not subject to any claims, offsets or defenses.

Section 5. Governing Law. This Amendment shall be governed by and interpreted in accordance with the laws of the State of New York.

Section 6. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

IN WITNESS WHEREOF, this Amendment has been executed by duly authorized representatives of the undersigned as of the day and year first above written.

IBM CREDIT CORPORATION

COMTEQ FEDERAL, INC.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

EXHIBIT A, EFFECTIVE DATE December 14, 1999 ("FPP EXHIBIT A"),
TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING - FLEXIBLE PAYMENT PLAN
("FPP ADDENDUM") DATED December 22, 1993

Customer's Name: ComTeq Federal, Inc.

1. FPP Credit Line Fees, Rates and Repayment Terms:

- (a) FPP Application Processing Fee: \$2,500.00;
- (b) FPP Credit Line: Nine Million Five Hundred Thousand Dollars (\$9,500,000.00);
- (c) Valuation Percentage:
 - (i) 85% of the amount of Customer's Eligible Accounts as of the date of determination as reflected in the Customer's most recent Collateral Report;
 - (ii) 100% of the Customer's inventory in the Customer's possession as of the date of determination as reflected in the Customer's most recent Collateral Management Report constituting Products (other than service parts) financed through a Product Advance by IBM Credit, provided, however, IBM Credit has a first priority security interest in such Products and such Products are in new and in un-opened boxes. The value to be assigned to such inventory shall be based upon the Authorized Supplier's invoice price to Customer for Products net of all applicable price reduction credits;
 - (iii) less an amount equal to One million Dollars (\$1,000,000.00).
- (d) Payment Due Dates will be the 5th, 15th, and 25th of each calendar month;
- (e) Monthly Service Fee: \$500.00;
- (f) Financing Period: 100 days from the date of each invoice;
- (g) No-Charge Financing Days: For products subsidized by a manufacturer there will be no charge for a certain period of time from the date of the invoice; or

Basis Points: Unless informed otherwise, for products not subsidized by a manufacturer there will be a one-time charge of 25 basis points for each invoice which is in addition to the Finance Charge Rate beginning on day 1;
- (h) FPP Financing Charge: Prime Rate plus 1.50%;

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

1. FPP Credit Line Fees, Rates and Repayment Terms (cont):

- (i) FPP Working Capital Option ("WCO"): Outstanding advances authorized up to the amount of eligible collateral. Total Outstanding Indebtedness not to exceed the FPP credit line amount;
- (j) WCO Term: 180 days;
- (k) FPP WCO Financing Charge: Prime Rate plus 1.50%;
- (l) Maximum Payment Reschedule Option ("PRO") Term: 30 days;
- (m) FPP PRO Financing Charge: Prime Rate plus 1.50%
- (n) Delinquency Fee: Prime Rate plus 6.50%;
- (o) ** Shortfall Transaction Fee: Shortfall Amount multiplied by 0.30%.

Financing Charges will be based on the Average Daily Balance ("ADB") and will be billed monthly. WCO and PRO Advances will become part of Customer's Outstanding Indebtedness to IBM Credit.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESAL FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

2. Documentation Requirements: ("Other Documents")

- o Executed Contingent Blocked Account Amendment to a Lockbox Agreement;
- o Subordination or Intercreditor Agreements from all creditors having a lien which is superior to IBM Credit's in any First Assets;
- o Executed Waiver of Landlord Lien for all premises in which a landlord has the right of levy for rent;
- o Any and all other documents and/or agreements IBM Credit, in its sole discretion, deems necessary.
- o Fiscal year-end financial statements of Customer as of December 31, 1999 and delivered to IBM Credit no later than 90 days after fiscal year end.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESAL FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

2. Documentation Requirements (continued):

Customer must submit the following within sixty (60) days after the end of Customer's fiscal year, and as requested by IBM Credit from time to time:

- o A pro forma income statement, balance sheet and cash flow statement for the next 12 months or through the current fiscal year and the following fiscal year; and
- o business narrative that at a minimum should include an explanation on how Customer plans to accomplish significant changes in revenue, gross profit margin, expenses, operating profit margin and net profit. The Customer's business strategy, anticipated business climate, and the headcount that will produce the projected financial results should also be included.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESale FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

3. Financial Covenants:

Definitions: The following terms shall have the following respective meanings in this Exhibit. All amounts shall be determined in accordance with generally accepted accounting principles (GAAP).

Consolidated Net Income shall mean, for any period, the net income (or loss), after taxes, of Customer on a consolidated basis for such period determined in accordance with GAAP.

Current shall mean within the on-going twelve month period.

Current Assets shall mean assets that are cash or expected to become cash within the on-going twelve months.

Current Liabilities shall mean payment obligations resulting from past or current transactions that require settlement within the on-going twelve month period. All indebtedness to IBM Credit shall be considered a Current Liability for purposes of determining compliance with the Financial Covenants.

EBITDA shall mean, for any period (determined on a consolidated basis in accordance with GAAP), (a) the Consolidated Net Income of Customer for such period, plus (b) each of the following to the extent reflected as an expense in the determination of such Consolidated Net Income: (i) the Customer's provisions for taxes based on income for such period; (ii) Interest Expense for such period; and (iii) depreciation and amortization of tangible and intangible assets of Customer for such period.

Fixed Charges shall mean, for any period, an amount equal to the sum, without duplication, of the amounts for such as determined for the Customer on a consolidated basis, of (i) scheduled repayments of principal of all Indebtedness (as reduced by repayments thereon previously made), (ii) Interest Expense, (iii) capital expenditures, (iv) dividends, (v) leasehold improvement expenditures and (vi) all provisions for U.S. and non U.S. Federal, state and local taxes.

Fixed Charge Coverage Ratio shall mean the ratio as of the last day of any fiscal period of (i) EBITDA as of the last day of such fiscal period to (ii) Fixed Charges.

3. Financial Covenants (continued):

Interest Expense shall mean, for any period, the aggregate consolidated interest expense of Customer during such period in respect of Indebtedness determined on a consolidated basis in accordance with GAAP, including, without limitation, amortization of original issue discount on any Indebtedness and of all fees payable in connection with the incurrence of such Indebtedness (to the extent included in interest expense), the interest portion of any deferred payment obligation and the interest component of any capital lease obligations.

Long Term shall mean beyond the on-going twelve month period.

Long Term Assets shall mean assets that take longer than a year to be converted to cash. They are divided into four categories: tangible assets, investments, intangibles and other.

Long Term Debt shall mean payment obligations of indebtedness which mature more than twelve months from the date of determination, or mature within twelve months from such date but are renewable or extendible at the option of the debtor to a date more than twelve months from the date of determination.

Net Profit after Tax shall mean Revenue plus all other income, minus all costs, including applicable taxes.

Revenue shall mean the monetary expression of the aggregate of products or services transferred by an enterprise to its customers for which said customers have paid or are obligated to pay, plus other income as allowed.

Subordinated Debt shall mean Customer's indebtedness to third parties as evidenced by an executed Notes Payable Subordination Agreement in favor of IBM Credit.

3. Financial Covenants (continued):

Tangible Net Worth shall mean:

Total Net Worth minus;

- (a) goodwill, organizational expenses, pre-paid expenses, deferred charges, research and development expenses, software development costs, leasehold expenses, trademarks, trade names, copyrights, patents, patent applications, privileges, franchises, licenses and rights in any thereof, and other similar intangibles (but not including contract rights) and other current and non-current assets as identified in Customer's financial statements;
- (b) all accounts receivable from employees, officers, directors, stockholders and affiliates; and
- (c) all callable/redeemable preferred stock.

Total Assets shall mean the total of Current Assets and Long Term Assets.

Total Liabilities shall mean the Current Liabilities and Long Term Debt less Subordinated Debt, resulting from past or current transactions, that require settlement in the future.

Total Net Worth (the amount of owner's or stockholder's ownership in an enterprise) is equal to Total Assets minus Total Liabilities.

Working Capital shall mean Current Assets minus Current Liabilities.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

3. Non-Financial Covenants:

Customer agrees to maintain standard all-risk insurance coverage on all locations in the amount of at least Five Hundred Thousand Dollars (\$500,000.00) and provide IBM Credit with a copy of the insurance policy. IBM Credit Corporation must be named as a lender loss payee.

EXHIBIT A TO ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING
FLEXIBLE PAYMENT PLAN ("FPP EXHIBIT A") (continued)

4. Financial Report Preparation Requirements:

Reports due under the terms of the FPP Addendum shall be prepared as follows:

Annual Reports shall be submitted no later than ninety (90) days after the close of the fiscal year.

Quarterly Reports shall be prepared internally by the Customer and delivered to IBM Credit no later than forty-five (45) days after the close of the quarter.

Customer must submit the following within sixty (60) days after the end of Customer's fiscal year, and as requested by IBM Credit from time to time:

- o A pro forma income statement, balance sheet and cash flow statement for the next 12 months or through the current fiscal year and the following fiscal year; and
- o business narrative that at a minimum should include an explanation on how Customer plans to accomplish significant changes in revenue, gross profit margin, expenses, operating profit margin and net profit. The Customer's business strategy, anticipated business climate, and the headcount that will produce the projected financial results should also be included.

AMENDMENT TO AGREEMENT FOR WHOLESALE FINANCING
(Comteq Federal, Inc.)

This Amendment to Agreement for Wholesale Financing is entered into as of February 25, 2000 by and between Comteq Federal, Inc., a Maryland corporation ("Customer") and IBM Credit Corporation ("IBM Credit").

WHEREAS, the Customer and IBM Credit are parties to a certain Agreement for Wholesale Financing (Security Agreement) dated as of October 12, 1993, as amended from time to time (the "Agreement"), including, without limitation, pursuant to a certain Amendment to Agreement for Wholesale Financing made as of December 23, 1999 (the "Agreement Amendment"), and a certain Addendum to Agreement for Wholesale Financing -- Flexible Payment Plan dated December 22, 1993, as amended from time to time (the "Addendum") (the Agreement, the Agreement Amendment and the Addendum are hereafter referred to collectively as the "IBM Documents"); and

WHEREAS, PC Connections Sales Corp. (fka PC Connection, Inc. ("Sales") has engaged in a corporate reorganization which was consummated on or about December 31, 1999, in which, among other things, (i) Sales formed PC Holdco, Inc. ("Holdco") as its subsidiary, (ii) Holdco formed a transitory subsidiary into which Sales was merged, which resulted in Sales being a wholly-owned subsidiary of Holdco, (iii) Sales formed two new subsidiaries, PC Connection Sales of Massachusetts, Inc. ("Sales-MA") and Merrimack Services Corp. ("Merrimack"), each a Delaware corporation and contributed certain assets to such entities, (iv) Sales then distributed its stock in Merrimack and its other subsidiary, the Customer to Holdco, and (v) Sales changed its name to "PC Connection Sales Corp." and Holdco changed its name to "PC Connection, Inc." (the "Restructuring"); and

WHEREAS, the Customer and IBM Credit desire to amend the IBM Documents on the terms and conditions set forth herein;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Customer and IBM Credit hereby agree as follows:

1. (a) Sections 4, 11(b), 11(c), 11(d), 11(e), 12 and 13 of the Agreement are hereby deleted in their entirety.

(b) The fourth sentence of Section 6 of the Agreement is hereby amended by inserting (1) after the words "relating to any indebtedness" the phrase "in excess of \$1,000,000", and (2) after the words "or other instrument" the phrase "in excess of \$1,000,000".

(c) The phrase "appraise them as security;" appearing in the second and third lines of Section 8 of the Agreement is hereby deleted in its entirety.

(d) Section II of the Agreement (as modified by the Agreement Amendment) is hereby deleted in its entirety and replaced with the following:

"11. Any of the following events will constitute an event of default by us under this Agreement: we breach any of the material terms, warranties or representations contained in this Agreement or in any other agreements between us and you or between us and any of your affiliates; any guarantor of our obligations to you under this Agreement or any other agreements breaches any of the material terms, warranties or representations contained in such guaranty or other agreements between such guarantor and you; any representation, statement, report or certificate made or delivered by us or any of our owners, representatives, employees or agents or by any guarantor to you is not true and correct in any material respect; we fail to pay any of the liabilities or obligations owed to you or any of your affiliates when due and payable under this Agreement or under any other agreements between us and you or between us and any of your affiliates; we abandon the Goods or any part thereof; we or any guarantor becomes in default in the payment of any indebtedness owed to any third party in excess of \$1,000,000; there shall occur an Event of Default pursuant to and as defined in any financing agreement between PC Connection, Inc., a Delaware corporation and Citizens Bank of Massachusetts, as agent, and the lenders party thereto, dated February __, 2000 or any successor financing agreement thereto; a judgment issues on any money demand against us or any guarantor which judgment exceeds available insurance by at least \$1,000,000; an attachment or seizure is issued against us or any material portion of the Goods; any material part of the Goods is seized or taken in execution; we cease or suspend our business; we or any guarantor makes a general assignment for the benefit of creditors; we or any guarantor becomes insolvent or voluntarily or involuntarily becomes subject to the Federal Bankruptcy Code, state insolvency laws or any act for the benefit of creditors (in the case of an involuntary proceeding, such proceeding is not stayed or vacated within 30 days); any receiver is appointed for any of our or any material portion of guarantor's assets, or any guaranty pertaining to our obligations to you is terminated for any reason whatsoever; any guarantor disclaims any obligations under any guaranty; we lose any franchise, permission, license or right necessary for the operation of our business; we or any guarantors misrepresents its respective financial condition or organizational structure in any material respect. Following an event of a default:"

(e) Sections 5, 8 and 9 of the Addendum are each hereby deleted in its entirety.

(f) In Section 12.2(a) of the Addendum, the phrase "nature of its business or property requires it to be qualified or licensed" is hereby deleted in its entirety and replaced with the phrase "failure to so qualify would have a material adverse effect on the Customer or its business".

(g) Clause (d) of Section 12.2 of the Addendum is hereby deleted in its entirety and replaced with "(d) Customer shall advise IBM Credit of the commencement or institution of legal proceedings against Customer before any court, administrative board or tribunal which involves claims, which if determined against the Customer, could

reasonably be expected to result in the Customer having to pay in excess of \$1,000,000 above any available insurance in satisfaction thereof."

(h) Clause (e) of Section 12.3 of the Addendum is hereby deleted in its entirety and replaced in its entirety with the following:

"(e) guaranty or indemnify or in any way become liable with respect to the obligations of any Person, except (1) by endorsement or instruments or items of payment for deposit to the general account of Customer in the ordinary course of business or which are transmitted or turned over to IBM Credit on account of Customer's Obligations or (2) by guaranty or similar agreement of the obligations of any affiliate of the Customer issued to or for the benefit of (x) any agent and/or lender under a working capital loan facility for such affiliate (and any amendment, modification, or replacement thereof) (the "Working Capital Facility"), (y) Deutsche Financial Services Corporation (or any successor or assign thereof) or (z) any capitalized lease or purchase money obligation of the Customer or any affiliate which is secured by the assets relating thereto and any proceeds thereof (and any amendment, modification, or replacement thereof) (the "Capitalized Lease Obligations");".

(i) Clause (i) of Section 12.3 of the Addendum is hereby deleted in its entirety and replaced in its entirety with the following:

"(i) incur any debts outside the ordinary course of Customer's business except (1) debts in connection with the guarantees permitted under Section 12.3(e)(2), (2) debts to Deutsche Financial Services Corporation (or any successor or assign thereof), (3) debts in connection with the Working Capital Facility and all Capitalized Lease Obligations and (4) renewals, extensions, modifications or replacements of any of the foregoing;"

(j) Clause (j) of Section 12.3 of the Addendum is hereby deleted in its entirety and replaced in its entirety with the following:

"(j) intentionally omitted; and".

2. IBM Credit hereby consents to the Restructuring and waives any notice thereof which may be required under the Agreement. IBM Credit further consents to (a) the issuance by Customer or any of its affiliates of any indebtedness to or guarantees to (i) IBM Credit, (ii) lenders under any working capital facility of Customer or any of its affiliates, or (iii) Deutsche Financial Services Corporation and (b) the granting of any liens to IBM Credit or Deutsche Financial Services Corporation.

3. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect. Customer hereby ratifies and confirms the Agreement as amended hereby and agrees that the Agreement as amended hereby represents a valid and enforceable obligation of Customer.

4. This Amendment shall be governed by and interpreted in accordance with the Laws of the State of [Illinois].

5. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

IN WITNESS WHEREOF, Customer and IBM Credit have executed this Amendment to Agreement for Wholesale Financing as of the date first set forth above.

COMTEQ FEDERAL, INC.

By: /s/ Gary Sorkin

Name: Gary Sorkin

Its: President

IBM CREDIT CORPORATION

By: -----
Name: -----
Its: -----

IN WITNESS WHEREOF, Customer and IBM Credit have executed this Amendment to Agreement for Wholesale Financing as of the date first set forth above.

COMTEQ FEDERAL, INC.

By: -----
Name: -----
Its: -----

IBM CREDIT CORPORATION

By: /s/ Stephen A. Nichols

Name: Stephen A. Nichols

Its: Region Credit Mgr

IBM Credit Corporation

GUARANTY
(For Comteq Federal, Inc.)

TO: IBM CREDIT CORPORATION
1500 RiverEdge Parkway
Atlanta, GA 30328

DATE: February 25, 2000

Gentlemen:

In consideration of credit and financing accommodations granted or to be granted by you to Comteq Federal, Inc. ("Dealer"), which is in the best interest of the undersigned, and for other good and valuable consideration received, the undersigned guaranties to you, jointly and severally, the prompt and unconditional payment by Dealer of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Dealer is obligated to you in connection with that certain Agreement for Wholesale Financing dated as of October 10, 1993, as amended and in effect from time to time, heretofore, now, or hereafter owed or arising ("Liabilities"), whether the Liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. The undersigned also agrees to indemnify you and hold you harmless against any losses you may sustain and expenses you may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Dealer, except those arising out of your own gross negligence or willful misconduct.

If Dealer fails to pay any Liabilities to you when due, all Liabilities to you shall then be deemed to have become immediately due and payable, and the undersigned shall then pay upon demand the full amount of all sums owed to you by Dealer, together with all reasonable expenses, including reasonable attorney's fees.

The liability of the undersigned is direct and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment of any security agreement or any other agreement between you and Dealer, or any change in the manner, place or terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, the release or non-perfection of any security thereunder, any change in Dealer's financial condition, or the interruption of business relations between you and Dealer. This Guaranty shall continue for so long as any sums owing to you by Dealer remain outstanding and unpaid, unless terminated in the manner provided below. The undersigned acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between you and Dealer or any other person creating or reserving any lien, encumbrance or security interest in any property of Dealer or any other person as security for any obligation of Dealer. You need not exhaust your rights or recourse against Dealer or any other person or any security you may have at any time before being entitled to payment from the undersigned.

This Guaranty is assignable, and shall inure to the benefit of and bind your and our respective successors and assigns.

If Dealer hereafter is incorporated, acquired by a corporation, dissolved, or otherwise undergoes any change in its management, ownership, identity or organizational structure, this Guaranty shall continue to extend to any Liabilities of the Dealer or such resulting corporation, dissolved corporation, or new or changed legal entity or identity to you.

The undersigned waives: notice of the acceptance of this Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance, and dishonor; notices of amount of indebtedness of Dealer outstanding at any time; notices of the number and amount of advances made by you to Dealer in

reliance on this Guaranty; notices of any legal proceedings against Dealer; notice and hearing as to any prejudgment remedies; and any other demands and notices required by law. The undersigned also waives any and all rights in and notices or demands relating to any collateral now or hereafter securing any of the Liabilities, including, but not limited to, all rights, notices or demands relating, whether directly or indirectly, to the sale or other disposition of any or all of such collateral or the manner of such sale or other disposition. All waivers by the undersigned herein shall survive any termination or revocation of this Guaranty.

The undersigned has made an independent investigation of the financial condition of Dealer and gives this Guaranty based on that investigation and not upon any representations made by you. The undersigned acknowledges that it has access to current and future Dealer financial information which will enable the undersigned to continuously remain informed of Dealer's financial condition. The undersigned also consents to and agrees that the obligations under this Guaranty shall not be affected by your: subsequent increases or decreases in the credit line that you may grant to Dealer; substitutions, exchanges or releases of all or any part of the collateral now or hereafter securing any of the Liabilities; sales or other dispositions of any or all of the collateral now or hereafter securing any of the Liabilities without demands, advertisement or notice of the time or place of the sales or other dispositions; realizing on the collateral; or purchases of all or any part of the collateral for your own account.

This Guaranty and any and all obligations, liabilities, terms and provisions herein shall survive any and all bankruptcy or insolvency proceedings, actions and/or claims brought by or against Dealer, whether such proceedings, actions and/or claims are federal and/or state.

This Guaranty is submitted by the undersigned to you (for your acceptance or rejection thereof) at your above specified office; as an offer by the undersigned to guaranty the credit and financial accommodations provided by you to Dealer. If accepted, this Guaranty shall be deemed to have been made at your above specified office. This Guaranty and all obligations pursuant thereto, shall be governed and controlled as to interpretation, enforcement, validity, construction, effect and in all other respects by the laws of the state of your above specified office. The undersigned, to induce you to accept this Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Guaranty may be litigated, at your sole discretion and election, in courts within the state of your above specified office. The undersigned consents and submits to the jurisdiction of any local, state or federal court located within that state. The undersigned waives any right to transfer or change the venue of any litigation brought against the undersigned by you in accordance with this paragraph.

Any delay by you, or your successors or assigns in exercising any or all rights granted you under this Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by you, your successors or assigns, to exercise any or all rights granted you under this Guaranty shall not operate as a waiver of your right to exercise any or all of them later.

This document contains the full agreement of the parties concerning the guaranty of Dealer's Liabilities and can be varied only by a document signed by all the parties hereto. The undersigned may terminate this Guaranty by notice to you in writing, the termination to be effective thirty (30) days after receipt and acknowledgment thereof by you, but the termination shall in no manner terminate the undersigned guaranty of Liabilities arising prior to the effective date of termination.

WE AGREE THAT ANY ACTION, SUIT OR PROCEEDING RELATING DIRECTLY OR INDIRECTLY TO THIS GUARANTY OR THE RELATIONSHIP BETWEEN YOU AND US, WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. THUS, WE HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH ACTION, SUIT OR PROCEEDING.

WITNESS (as to all)

/s/ Jack L. Ferguson

(Print Name: Jack L. Ferguson)

Address: Rte 101A, 730 Milford Rd.

Merrimack, NH 03054

PC CONNECTION SALES CORP.
(f/k/a PC Connection, Inc.)

By: /s/ Jerry McDougal

(Print Name: Jerry McDougal)

Title: Vice President

PC CONNECTION SALES OF
MASSACHUSETTS, INC.

By: /s/ Peter Cannure

(Print Name: Peter Cannure)

Title: Vice President

MERRIMACK SERVICES CORP.

By: /s/ Mark Gavin

(Print Name: Mark Gavin)

Title: Chief Financial Officer

PC CONNECTION, INC. (fka PC Holdco, Inc.)

By: /s/ Mark Gavin

(Print Name: Mark Gavin)

Title: Chief Financial Officer)

Guarantor's Address (as to all):

Rte 101A, 730 Milford Road

Merrimack, NH 03054

AGREEMENT FOR WHOLESALE FINANCING
(Unsecured -- Negative Covenant)

This Agreement for Wholesale Financing ("Agreement") is made as of February 25, 2000 between Deutsche Financial Services Corporation ("DFS") and Comteq Federal, Inc., _____ a SOLE PROPRIETORSHIP, PARTNERSHIP, CORPORATION, LIMITED LIABILITY COMPANY (check applicable term) ("Dealer"), having a principal Place of business located at 7503 Standish Place, Rockville, MD 20855.

WHEREAS, Dealer and DFS heretofore entered into that certain Agreement for Wholesale Financing dated July 17, 1997, as amended (the "Prior Agreement"), and

WHEREAS, Dealer has requested an unsecured credit facility from DFS; and

WHEREAS, Dealer and DFS desire to amend and restate the Prior Agreement to, among other things, allow DFS to extend unsecured credit to Dealer.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby mutually amend and restate the Prior Agreement so that in its entirety it reads as follows:

1. **Extension of Credit.** Subject to the terms of this Agreement, DFS may extend credit to Dealer from time to time to purchase inventory from DFS approved vendors ("Vendors") and for other purposes. Upon DFS's advance of funds to Dealer following Dealer's execution of this Agreement, DFS will be deemed to have entered into this Agreement with Dealer, whether or not executed by DFS. DFS' decision to advance funds will not be binding until the funds are actually advanced. DFS may combine all of DFS' advances to Dealer or on Dealer's behalf, whether under this Agreement or any other agreement, and whether provided by one or more of DFS' branch offices, together with all finance charges, fees and expenses related thereto, to make one debt owed by Dealer. DFS may, at any time and without notice to Dealer, elect not to finance any inventory sold by particular Vendors who are in default of their obligations to DFS, or with respect to which DFS reasonably feels insecure. This is an agreement regarding the extension of credit, and not the provision of goods or services.
2. **Financing Terms and Statements of Transaction.** Dealer and DFS agree that certain financial terms of any advance made by DFS under this Agreement, whether regarding finance charges, other fees, maturities, curtailments or other financial terms, are not set forth herein because such terms depend, in part, upon the availability of Vendor discounts, payment terms or other incentives, prevailing economic conditions, DFS' floorplanning volume with Dealer and with Dealer's Vendors, and other economic factors which may vary over time. Dealer and DFS further agree that it is therefore in their mutual best interest to set forth in this Agreement only the general terms of Dealer's financing arrangement with DFS. Upon agreeing to finance a particular item of inventory for Dealer, DFS will send Dealer a Statement of Transaction identifying such inventory and the applicable financial terms. Unless Dealer notifies DFS in writing of any objection within fifteen (15) days after a Statement of Transaction is mailed to Dealer: (a) the amount shown on such Statement of Transaction will be an account stated; (b) Dealer will have agreed to all rates, charges and other terms shown on such Statement of Transaction; (c) Dealer will have agreed that DFS is financing the items of inventory referenced in such Statement of Transaction at Dealer's request; and (d) such Statement of Transaction will be incorporated herein by reference, will be made a part hereof as if originally set forth herein, and will constitute an addendum hereto. If Dealer objects to the terms of any Statement of Transaction, Dealer agrees to pay DFS for such inventory in accordance with the most recent terms for similar inventory to which Dealer has not objected (or, if there are no prior terms, at the lesser of 16% per annum or at the maximum lawful contract rate of interest permitted under applicable law), but Dealer acknowledges that DFS may then elect to terminate Dealer's financing program pursuant to Section 16, and cease making additional advances to Dealer. However, such termination will not accelerate the maturities of advances previously made, unless Dealer shall otherwise be in default of this Agreement.

3. No Security Interest. Dealer has not granted, and will not in the future grant, a security interest to any third party in any of Dealer's assets including, but not limited to, Dealer's inventory financed by DFS (other than as may arise by operation of law, or which are being terminated in connection herewith, or liens on equipment which is the subject of capital leases or purchase money indebtedness ("Permitted Encumbrances")). Dealer has not executed, and will not execute, any financing statements or authorize the execution of any financing statements on Dealer's behalf.
4. Affirmative Warranties and Representations. Dealer warrants and represents to DFS that: (a) Dealer's assets are not now and will not become subject to the security interest, lien, encumbrance or claim of any person, other than the Permitted Encumbrances; (b) Dealer will at all times be duly organized, existing, in good standing, qualified and licensed to do business in each state, county, or parish in which the failure to so qualify or be licensed could reasonably be expected to have a material adverse effect on Dealer's financial or business condition or could reasonably be expected to adversely affect a material portion of Dealer's assets (collectively, a "Material Adverse Effect"); (c) Dealer has the right and is duly authorized to enter into this Agreement; (d) Dealer's execution of this Agreement does not constitute a breach of any agreement to which Dealer is now or hereafter becomes bound which could cause a Material Adverse Effect; (e) there are and will be no actions or proceedings pending or threatened against Dealer which could have a Material Adverse Effect; (f) Dealer has paid and will pay when due all taxes, levies, assessments and governmental charges of any nature except those being contested by Dealer in good faith; (g) Dealer will promptly supply DFS with such information concerning it or any guarantor as DFS hereafter may reasonably request; (h) Dealer will give DFS thirty (30) days prior written notice of any change in Dealer's identity, name, form of business organization, ownership or principal place of business; (i) Dealer will observe and perform all matters required by any lease, license, concession or franchise necessary to the maintenance and operation of its business; (j) Dealer will advise DFS of the commencement of material legal proceedings against Dealer or any guarantor and (k) Dealer will comply with all applicable laws and will conduct its business in a manner which preserves and protects Dealer's assets.
5. Negative Covenants. Dealer will not at any time (without DFS' prior written consent): (a) other than in the ordinary course of its business, sell, lease or otherwise dispose of or transfer any of its assets; or (b) merge or consolidate with another entity.
6. Insurance. Dealer will keep the inventory insured for its full insurable value under an "all risk" property insurance policy with a company acceptable to DFS. Dealer will provide DFS with written evidence of such property insurance coverage upon request.
7. Financial Statements. Dealer will deliver to DFS: (a) within ninety (90) days after the end of each of Dealer's fiscal years, a reasonably detailed balance sheet as of the last day of such fiscal year and a reasonably detailed income statement covering the consolidated operations of PC Connection, Inc. and its subsidiaries (including Dealer) for such fiscal year, in a form reasonably satisfactory to DFS; (b) within forty-five (45) days after the end of each of Dealer's fiscal quarters, a reasonably detailed balance sheet as of the last day of such quarter and an income statement covering the consolidated operations of PC Connection, Inc. and its subsidiaries (including Dealer) for such quarter, in a form reasonably satisfactory to DFS; and (c) within ten (10) days after request therefor by DFS, any other report reasonably requested by DFS relating to the inventory or the financial condition of Dealer. Dealer warrants and represents to DFS that all financial statements and information relating to Dealer or any guarantor which have been or may hereafter be delivered by Dealer or any guarantor are true and correct in all material respects and have been and will be prepared in accordance with generally accepted accounting principles consistently applied and, with respect to such previously delivered statements or information, there has been no material adverse change in the financial or business condition of Dealer or any guarantor since the submission to DFS, either as of the date of delivery, or, if different, the date specified therein, and Dealer acknowledges DFS' reliance thereon, other

than the corporate restructuring which occurred on or about December 31, 1999 pursuant to which Dealer became a wholly-owned subsidiary of PC Connection, Inc.

8. **Reviews.** Dealer grants DFS an irrevocable license to enter Dealer's business locations during normal business hours upon 24 hours notice to Dealer, unless Dealer is in default hereunder in which case no prior notice to Dealer shall be required, to (a) verify Dealer's compliance with this Agreement; (b) account for and inspect all inventory; and (c) examine and copy Dealer's books and records related to the inventory.
9. **Payment Terms.** Dealer will immediately pay DFS the principal indebtedness owed DFS on each item of inventory financed by DFS (as shown on the Statement of Transaction identifying such inventory) on the earliest occurrence of any of the following events: (a) for inventory financed under Pay-As-Sold ("PAS") terms (as shown on the Statement of Transaction identifying such inventory), when such inventory is sold, transferred, rented, leased, otherwise disposed of or matured; (b) in strict accordance with any curtailment schedule for such inventory (as shown on the Statement of Transaction identifying such inventory); (c) for inventory financed under Scheduled Payment Program ("SPP") terms (as shown on the Statement of Transaction identifying such inventory), in strict accordance with the installment payment schedule; and (d) when otherwise required under the terms of any financing program agreed to in writing by the parties. If Dealer from time to time is required to make immediate payment to DFS of any past due obligation, Dealer agrees that acceptance of such payment by DFS shall not be construed to have waived or amended the terms of its financing program. Dealer will send all payments to DFS' branch office(s) responsible for Dealer's account. DFS may apply: (i) payments to reduce finance charges first and then principal, regardless of Dealer's instructions; and (ii) principal payments to the oldest (earliest) invoice for inventory financed by DFS, but, in any event, all principal payments will first be applied to such inventory which is sold, lost, stolen, damaged, rented, leased, or otherwise disposed of or unaccounted for. Any third party discount, rebate, bonus or credit granted to Dealer for any inventory will not reduce the debt Dealer owes DFS until DFS has received payment therefor in cash. Dealer will: (1) pay DFS even if any inventory is defective or fails to conform to any warranties extended by any third party; (2) not assert against DFS any claim or defense Dealer has against any third party; and (3) indemnify and hold DFS harmless against all claims and defenses asserted by any buyer of the inventory relating to the condition of, or any representations regarding, any of the inventory. Dealer waives all rights of offset and counterclaims Dealer may have against DFS.
10. **Calculation of Charges.** Dealer will pay finance charges to DFS on the outstanding principal debt which Dealer owes DFS for each item of inventory financed by DFS at the rate(s) shown on the Statement of Transaction identifying such inventory, unless Dealer objects thereto as provided in Section 2. The finance charges attributable to the rate shown on the Statement of Transaction will: (a) be computed based on a 360 day year; (b) be calculated by multiplying the Daily Charge (as defined below) by the actual number of days in the applicable billing period; and (c) accrue from the invoice date of the inventory identified on such Statement of Transaction until DFS receives full payment of the principal debt Dealer owes DFS for each item of such inventory in good funds in accordance with DFS' payment recognition policy and DFS applies such payment to Dealer's principal debt in accordance with the terms of this Agreement. The "Daily Charge" is the product of the Daily Rate (as defined below) multiplied by the Average Daily Balance (as defined below). The "Daily Rate" is the quotient of the annual rate shown on the Statement of Transaction divided by 360, or the monthly rate shown on the Statement of Transaction divided by 30. The "Average Daily Balance" is the quotient of (i) the sum of the outstanding principal debt owed DFS on each day of a billing period for each item of inventory identified on a Statement of Transaction, divided by (ii) the actual number of days in such billing period. Dealer will also pay DFS \$100 for each check returned unpaid for insufficient funds (an "NSF check") (such \$100 payment repays DFS' estimated administrative costs; it does not waive the default caused by the NSF check). The annual percentage rate of the finance charges relating to any item of inventory financed by DFS will be calculated from the invoice date of such inventory, regardless of any period during which any finance charge subsidy shall be paid or payable by any third party. Dealer acknowledges that DFS intends to strictly conform to the applicable usury laws

governing this Agreement. Regardless of any provision contained herein or in any other document executed or delivered in connection herewith or therewith, DFS shall never be deemed to have contracted for, charged or be entitled to receive, collect or apply as interest on this Agreement (whether termed interest herein or deemed to be interest by judicial determination or operation of law), any amount in excess of the maximum amount allowed by applicable law, and, if DFS ever receives, collects or applies as interest any such excess, such amount which would be excessive interest will be applied first to the reduction of the unpaid principal balances of advances under this Agreement, and, second, any remaining excess will be paid to Dealer. In determining whether or not the interest paid or payable under any specific contingency exceeds the highest lawful rate, Dealer and DFS shall, to the maximum extent permitted under applicable law: (A) characterize any non-principal payment other than payments which are expressly designated as interest payments hereunder) as an expense or fee rather than as interest; (B) exclude voluntary pre-payments and the effect thereof; and (C) spread the total amount of interest throughout the entire term of this Agreement so that the interest rate is uniform throughout such term.

11. **Billing Statement.** DFS will send Dealer a monthly billing statement identifying all charges due on Dealer's account with DFS. The charges specified on each billing statement will be: (a) due and payable in full immediately on receipt; and (b) an account stated, unless DFS receives Dealer's written objection thereto within 15 days after it is mailed to Dealer. If DFS does not receive, by the 25th day of any given month, payment of all charges accrued to Dealer's account with DFS during the immediately preceding month, Dealer will (to the extent allowed by law) pay DFS a late fee ("Late Fee") equal to the greater of \$5 or 5% of the amount of such finance charges (payment of the Late Fee does not waive the default caused by the late payment). DFS may adjust the billing statement at any time to conform to applicable law and this Agreement.
12. **Default.** Dealer will be in default under this Agreement if: (a) Dealer breaches any terms, warranties or representations contained herein, in any Statement of Transaction to which Dealer has not objected as provided in Section 2, or in any other agreement between DFS and Dealer; (b) any guarantor of Dealer's debts to DFS breaches any terms, warranties or representations contained in any guaranty or other agreement between the guarantor and DFS; (c) any representation, statement, report or certificate made or delivered by Dealer or any guarantor to DFS is not accurate when made; (d) Dealer fails to pay any portion of Dealer's debts to DFS when due and payable hereunder or under any other agreement between DFS and Dealer; (e) Dealer or any guarantor is or becomes in default in the payment of any debt owed to any third party in an amount over \$1,000,000; (f) a money judgment issues against Dealer or any guarantor over \$1,000,000 in excess of insurance; (g) an attachment, sale or seizure issues or is executed against any assets of Dealer or of any guarantor; (h) Dealer or any guarantor shall cease existence as a corporation, partnership, limited liability company or trust, as applicable; (i) Dealer or any guarantor ceases or suspends business; (j) Dealer, any guarantor or any member while Dealer's business is operated as a limited liability company, as applicable, makes a general assignment for the benefit of creditors; (k) Dealer, any guarantor or any member while Dealer's business is operated as a limited liability company, as applicable, becomes insolvent or voluntarily or involuntarily becomes subject to the Federal Bankruptcy Code, any state insolvency law or any similar law; (l) any receiver is appointed for any assets of Dealer, any guarantor or any member while Dealer's business is operated as a limited liability company, as applicable; (m) any guaranty of Dealer's debts to DFS is terminated; (n) Dealer loses any franchise, permission, license or right necessary for the operation of its business; (q) Dealer or any guarantor misrepresents Dealer's or such guarantor's financial condition or organizational structure in any material respect; (o) DFS determines in good faith that it is insecure with respect to the payment of any part of Dealer's obligation to DFS; or (p) there shall occur a material adverse change in the financial or other condition or business prospects of Dealer or any guarantor.
13. **Rights of DFS Upon Default.** In the event of a default:
 - (a) DFS may at any time at DFS' election, without notice or demand to Dealer, do any one or more of the following: declare all or any part of the debt Dealer owes DFS immediately due and payable, together with all costs and

expenses of DFS' collection activity, including, without limitation, all reasonable attorneys' fees; exercise any or all rights under applicable law; and/or cease extending any additional credit to Dealer (DFS' right to cease extending credit shall not be construed to limit the discretionary nature of this credit facility).

(b) DFS may, without notice, apply a default finance charge to Dealer's outstanding principal indebtedness equal to the default rate specified in Dealer's financing program with DFS, if any, or if there is none so specified, at the lesser of 3% per annum above the rate in effect immediately prior to the default, or the highest lawful contract rate of interest permitted under applicable law. All of DFS' rights and remedies are cumulative. DFS' failure to exercise any of DFS' rights or remedies hereunder will not waive any of DFS' rights or remedies as to any past, current or future default.

14. Power of Attorney. Dealer grants DFS an irrevocable power of attorney to supply any omitted information and correct errors in any documents between DFS and Dealer; and to initiate and settle any insurance claim pertaining to the inventory.
15. Information. DFS may provide to any third party upon request any credit information on Dealer that DFS may from time to time possess or any financial or other information on Dealer that DFS may from time to time possess as required by law. DFS may obtain from any Vendor any credit, financial or other information regarding Dealer that such Vendor may from time to time possess.
16. Termination. Either party may terminate this Agreement at any time by written notice received by the other party. If DFS terminates this Agreement, Dealer agrees that if Dealer: (a) is not in default hereunder, 30 days prior notice of termination is reasonable and sufficient (although this provision shall not be construed to mean that shorter periods may not, in particular circumstances, also be reasonable and sufficient); or (b) is in default hereunder, no prior notice of termination is required. Dealer will not be relieved from any obligation to DFS arising out of DFS' advances or commitments made before the effective termination date of this Agreement. DFS will retain all of its rights, interests and remedies hereunder until Dealer has paid all of Dealer's debts to DFS. All waivers set forth within this Agreement will survive any termination of this Agreement.
17. Binding Effect. Dealer cannot assign its interest in this Agreement without DFS' prior written consent, although DFS may assign or participate DFS' interest, in whole or in part, without Dealer's consent. This Agreement will protect and bind DFS' and Dealer's respective heirs, representatives, successors and assigns.
18. Notices. except as otherwise stated herein, all notices, arbitration claims, responses, requests and documents will be sufficiently given or served if mailed or delivered: (a) to Dealer at Dealer's principal place of business specified above; and (b) to DFS at 655 Maryville Centre Drive, St. Louis, Missouri 63141-5832, Attention: General Counsel, or such other address as the parties may hereafter specify in writing.
19. NO ORAL AGREEMENTS. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBTS ARE NOT ENFORCEABLE. TO PROTECT DEALER AND DFS FROM MISUNDERSTANDING OR DISAPPOINTMENT, ALL AGREEMENTS COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN THE PARTIES, EXCEPT AS SPECIFICALLY PROVIDED HEREIN OR AS THE PARTIES MAY LATER AGREE IN WRITING TO MODIFY IT. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.
20. Other Waivers. Dealer irrevocably waives notice of: DFS' acceptance of this Agreement, presentment, demand, protest, nonpayment, nonperformance, and dishonor. Dealer and DFS irrevocably waive all rights to claim any punitive and/or exemplary damages.
21. Severability. If any provision of this Agreement or its application is invalid or unenforceable, the remainder of this Agreement will not be impaired or affected and will remain binding and enforceable.

22. Supplement. If Dealer and DFS have heretofore executed other agreements in connection with all or any part of the inventory and/or Collateral, this Agreement shall supplement each and every other agreement previously executed by and between Dealer and DFS, and in that event this Agreement shall neither be deemed a novation nor a termination of such previously executed agreement nor shall execution of this Agreement be deemed a satisfaction of any obligation secured by such previously executed agreement.
23. Receipt of Agreement. Dealer acknowledges that it has received a true and complete copy of this Agreement. Dealer acknowledges that it has read and understood this Agreement. Notwithstanding anything herein to the contrary: (a) DFS may rely on any facsimile copy, electronic data transmission or electronic data storage of this Agreement, any Statement of Transaction (unless rejected by Dealer in accordance with Section 2 hereof), billing statement, invoice from a Vendor, financial statements or other reports, and (b) such facsimile copy, electronic data transmission or electronic data storage will be deemed an original, and the best evidence thereof for all purposes, including, without limitation, under this Agreement or any other agreement between DFS and Dealer, and for all evidentiary purposes before any arbitrator, court or other adjudicatory authority.
24. Miscellaneous. Time is of the essence regarding Dealer's performance of its obligations to DFS notwithstanding any course of dealing or custom on DFS' part to grant extensions of time. Dealer's liability under this Agreement is direct and unconditional and will not be affected by the release or nonperfection of any security interest granted hereunder. DFS will have the right to refrain from or postpone enforcement of this Agreement or any other agreements between DFS and Dealer without prejudice and the failure to strictly enforce these agreements will not be construed as having created a course of dealing between DFS and Dealer contrary to the specific terms of the agreements or as having modified, released or waived the same. The express terms of this Agreement will not be modified by any course of dealing, usage of trade, or custom of trade which may deviate from the terms hereof. If Dealer fails to pay any taxes, fees or other obligations which may impair DFS' interest in the inventory, or fails to keep the inventory insured, DFS may, but shall not be required to, pay such taxes, fees or obligations and pay the cost to insure the inventory, and the amounts paid will be: (a) an additional debt owed by Dealer to DFS, which shall be subject to finance charges as provided herein; and (b) due and payable immediately in full. Dealer agrees to pay all of DFS' reasonable attorneys' fees and expenses incurred by DFS in enforcing DFS' rights hereunder. The Section titles used in this Agreement are for convenience only and do not define or limit the contents of any Section.
25. **BINDING ARBITRATION.**
- 25.1 Arbitrable Claims. Except as otherwise specified below, all actions, disputes, claims and controversies under common law, statutory law or in equity of any type or nature whatsoever (including, without limitation, all torts, whether regarding negligence, breach of fiduciary duty, restraint of trade, fraud, conversion, duress, interference, wrongful replevin, wrongful sequestration, fraud in the inducement, usury or any other tort, all contract actions, whether regarding express or implied terms, such as implied covenants of good faith, fair dealing, and the commercial reasonableness of any inventory disposition, or any other contract claim, all claims of deceptive trade practices or lender liability, and all claims questioning the reasonableness or lawfulness of any act), whether arising before or after the date of this Agreement, and whether directly or indirectly relating to: (a) this Agreement and/or any amendments and addenda hereto, or the breach, invalidity or termination hereof; (b) any previous or subsequent agreement between DFS and Dealer; (c) any act committed by DFS or by any parent company, subsidiary or affiliated company of DFS (the "DFS Companies"), or by any employee, agent, officer or director of an DFS company whether or not arising within the scope and course of employment or other contractual representation of the DFS Companies provided that such act arises under a relationship, transaction or dealing between DFS and Dealer; and/or (d) any other relationship, transaction or dealing between DFS and Dealer (collectively the "Disputes"), will be subject to and resolved by binding arbitration.

- 25.2 Administrative Body. All arbitration hereunder will be conducted in accordance with the Commercial Arbitration Rules of The American Arbitration Association ("AAA"). If the AAA is dissolved, disbanded or becomes subject to any state or federal bankruptcy or insolvency proceeding, the parties will remain subject to binding arbitration which will be conducted by a mutually agreeable arbitral forum. The parties agree that all arbitrator(s) selected will be attorneys with at least five (5) years secured transactions experience. The arbitrator(s) will decide if any inconsistency exists between the rules of any applicable arbitral forum and the arbitration provisions contained herein. If such inconsistency exists, the arbitration provisions contained herein will control and supersede such rules. The site of all arbitration proceedings will be in the Division of the Federal Judicial District in which AAA maintains a regional office that is closest to Dealer.
- 25.3 Discovery. Discovery permitted in any arbitration proceeding commenced hereunder is limited as follows. No later than sixty (60) days after the filing of a claim for arbitration, the parties will exchange detailed statements setting forth the facts supporting the claim(s) and all defenses to be raised during the arbitration, and a list of all exhibits and witnesses. No later than twenty-one (21) days prior to the arbitration hearing, the parties will exchange a final list of all exhibits and all witnesses, including any designation of any expert witness(es) together with a summary of their testimony; a copy of all documents and a detailed description of any property to be introduced at the hearing. However, in the event of the designation of any expert witness(es), the following will occur: (a) all information and documents relied upon by the expert witness(es) will be delivered to the opposing party, (b) the opposing party will be permitted to depose the expert witness(es), (c) the opposing party will be permitted to designate rebuttal expert witness(es), and (d) the arbitration hearing will be continued to the earliest possible date that enables the foregoing limited discovery to be accomplished.
- 25.4 Exemplary or Punitive Damages. The Arbitrator(s) will not have the authority to award exemplary or punitive damages.
- 25.5 Confidentiality of Awards. All arbitration proceedings, including testimony of evidence at hearings, will be kept confidential, although any award or order rendered by the arbitrator(s) pursuant to the terms of this Agreement may be entered as a judgment or order in any state or federal court and may be confirmed within the federal judicial district which includes the residence of the party against whom such award or order was entered. This Agreement concerns transactions involving commerce among the several states. The Federal Arbitration Act, Title 9 U.S.C. Sections 1 et seq., as amended ("FAA") will govern all arbitration(s) and confirmation proceedings hereunder.
- 25.6 Prejudgment and Provisional Remedies. Nothing herein will be construed to prevent DFS' or Dealer's use of bankruptcy, receivership, injunction, repossession, replevin, claim and delivery, sequestration, seizure, attachment, foreclosure, dation and/or any other prejudgment or provisional action or remedy relating to any inventory and/or Collateral for any current or future debt owed by either party to the other. Any such action or remedy will not waive DFS' or Dealer's right to compel arbitration of any Dispute.
- 25.7 Attorneys' Fees. If either Dealer or DFS brings any other action for judicial relief with respect to any Dispute (other than those set forth in Section 25.6), the party bringing such action will be liable for and immediately pay all of the other party's reasonable costs and expenses including attorneys' fees) incurred to stay or dismiss such action and remove or refer such Dispute to arbitration. If either Dealer or DFS brings or appeals an action to vacate or modify an arbitration award and such party DFS not prevail, such party will pay all reasonable costs and expenses, including reasonable attorneys' fees, incurred by the other party in defending such action.
- 25.8 Limitations. Any arbitration proceeding must be instituted: (a) with respect to any Dispute for the collection of any debt owed by either party to the other, within two (2) years after the date the last payment was received by the instituting party; and (b) with respect to any other Dispute, within two (2) years after the date the incident giving rise

thereto occurred. Failure to institute an arbitration proceeding within such period will constitute an absolute bar and waiver to the institution of any proceeding, whether arbitration or a court proceedings, with respect to such Dispute.

25.9 Survival After Termination. The agreement to arbitrate will survive the termination of this Agreement.

26. INVALIDITY/UNENFORCEABILITY OF BINDING ARBITRATION. IF THIS AGREEMENT IS FOUND TO BE NOT SUBJECT TO ARBITRATION, ANY LEGAL PROCEEDING WITH RESPECT TO ANY DISPUTE WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. DEALER AND DFS WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH PROCEEDING.

27. Governing Law. Dealer acknowledges and agrees that this and all other agreements between dealer and DFS have been substantially negotiated, and will be substantially performed, in the Commonwealth of Massachusetts. Accordingly, Dealer agrees that all Disputes will be governed by, and construed in accordance with, the laws of such state except to the extent inconsistent with the provisions of the FAA which shall control and govern all arbitration proceedings hereunder.

IN WITNESS WHEREOF, Dealer and DFS have executed this Agreement as of the date first set forth hereinabove.

THIS CONTRACT CONTAINS BINDING ARBITRATION, JURY WAIVER AND PUNITIVE DAMAGE WAIVER PROVISIONS.

DEUTSCHE FINANCIAL SERVICES CORPORATION

By: /s/ Mark B. Schafer

Print Name: Mark B. Schafer

Title: Vice President - Operations

Comteq Federal, Inc.

Dealer's Name
By: /s/ Gary Sorkin

Print Name: Gary Sorkin

Title: President

By:

Print Name:

Title:

ATTEST:
/s/ Dawn M. Cranford

(Assistant) Secretary
Print Name: DAWN M. CRANFORD

GUARANTY

TO: DEUTSCHE FINANCIAL SERVICES CORPORATION

In consideration of financing provided or to be provided by you to Comteq Federal, Inc. ("Dealer"), and for other good and valuable consideration received, we jointly, severally, unconditionally and absolutely guaranty to you, from property held separately, jointly or in community, the immediate payment when due of all current and future liabilities owed by Dealer to you, whether such liabilities are direct, indirect or owed by Dealer to a third party and acquired by you (and, with respect to such liabilities owed by Dealer to a third party and acquired by you, to the extent the guaranty by the undersigned is reaffirmed in writing) ("Liabilities"). We will pay you on demand the full amount of all sums owed by Dealer to you, together with all reasonable costs and expenses (including, without limitation, reasonable attorneys' fees). We also indemnify and hold you harmless from and against all (a) losses, costs and expenses you incur and/or are liable for (including, without limitation, reasonable attorneys' fees) and (b) claims, actions and demands made by Dealer or any third party against you, which in any way relate to any relationship or transaction between you and Dealer.

Our guaranty will not be released, discharged or affected by, and we hereby irrevocably consent to, any: (a) change in the manner, place, interest rate, finance or other charges, or terms of payment or performance in any current or future agreement between you and Dealer, the release, settlement or compromise of or with any party liable for the payment or performance thereof or the substitution, release, non-perfection, impairment, sale or other disposition of any collateral thereunder; (b) change in Dealer's financial condition; (c) interruption of relations between Dealer and you or us; (d) claim or action by Dealer against you; and/or (e) increases or decreases in any credit you may provide to Dealer. We will pay you even if you have not exercised any of your rights or remedies against Dealer, any other person or any current or future collateral. This Guaranty is assignable by you and will inure to the benefit of your assignee. If Dealer hereafter undergoes any change in its ownership, identity or organizational structure, this Guaranty will extend to all current and future obligations which such new or changed legal entity owes to you.

We irrevocably waive (to the extent permitted by law): notice of your acceptance of this Guaranty, presentment, demand, protest, nonpayment, nonperformance, notice of breach or default, notice of intent to accelerate and notice of acceleration of any indebtedness of Dealer, any right of contribution from other guarantors, dishonor, the amount of indebtedness of Dealer outstanding at any time, the number and amount of advances made by you to Dealer in reliance on this Guaranty and any claim or action against Dealer; all other demands and notices required by law; all rights of offset and counterclaims against you or Dealer; all defenses to the enforceability of this Guaranty (including, without limitation, fraudulent inducement). We further waive (to the extent permitted by law) all defenses based on suretyship or impairment of collateral, and defenses which the Dealer may assert on the underlying debt, including but not limited to, failure of consideration, breach of warranty, fraud, statute of frauds, bankruptcy, lack of legal capacity, lender liability, deceptive trade practices and usury. We also waive all rights to claim, arbitrate for or sue for any punitive or exemplary damages. In addition, we hereby irrevocably subordinate to you any and all of our present and future rights and remedies: (a) of subrogation against Dealer to any of your rights or remedies against Dealer; (b) of contribution, reimbursement, indemnification and restoration from Dealer; and (c) to assert any other claim or action against Dealer directly or indirectly relating to this Guaranty, such subordinations to last until you have been paid in full for all Liabilities. All of our waivers and subordinations herein will survive any termination of this Guaranty.

We have made an independent investigation of the financial condition of Dealer and give this Guaranty based on that investigation and not upon any representation made by you. We have access to current and future Dealer financial information which enables us to remain continuously informed of Dealer's financial condition. We represent and warrant to you that we have received and will receive substantial direct or indirect benefit by making this Guaranty and incurring the Liabilities. We will provide you with

consolidated financial statements on us and our subsidiaries each year within ninety (90) days after the end of our fiscal year end. We warrant and represent to you that all financial statements and information relating to us or Dealer which have been or may hereafter be delivered by us or Dealer to you are true and correct and have been and will be prepared in accordance with generally accepted accounting principles consistently applied and, with respect to previously delivered statements and information, there has been no material adverse change in the financial or business condition of us or Dealer since the submission to you, either as of the date of delivery, or if different, the date specified therein, and we acknowledge your reliance thereon. This Guaranty will survive any federal and/or state bankruptcy or insolvency action involving Dealer. We are solvent and our execution of this Guaranty will not make us insolvent. If you are required in any action involving Dealer to return or rescind any payment made to or value received by you from or for the account of Dealer, this Guaranty will remain in full force and effect and will be automatically reinstated without any further action by you and notwithstanding any termination of this Guaranty or your release of us. Any delay or failure by you, or your successors or assigns, in exercising any of your rights or remedies hereunder will not waive any such rights or remedies. Oral agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable. To protect us and you from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as specifically provided herein or as we may later agree in writing to modify it. Notwithstanding anything herein to the contrary: (a) you may rely on any facsimile copy, electronic data transmission or electronic data storage of this Guaranty, any agreement between you and Dealer, any Statement of Transaction, billing statement, invoice from a vendor, financial statements or other report, and (b) such facsimile copy, electronic data transmission or electronic data storage will be deemed an original, and the best evidence thereof for all purposes, including, without limitation, under this Guaranty or any other agreement between you and us, and for all evidentiary purposes before any arbitrator, court or other adjudicatory authority. We may terminate this Guaranty by a written notice to you, the termination to be effective forty-five (45) days after you receive and acknowledge it, but the termination will not terminate our obligations hereunder for Liabilities arising prior to the effective termination date. We have read and understood all terms and provisions of this Guaranty. We acknowledge receipt of a true copy of this Guaranty and of all agreements between you and Dealer. The meanings of all terms herein are equally applicable to both the singular and plural forms of such terms.

BINDING ARBITRATION. Except as otherwise specified below, all actions, disputes, claims and controversies under common law, statutory law or in equity of any type or nature whatsoever (including, without limitation, all torts, whether regarding negligence, breach of fiduciary duty, restraint of trade, fraud, conversion, duress, interference, wrongful replevin, wrongful sequestration, fraud in the inducement, usury or any other tort, all contract actions, whether regarding express or implied terms, such as implied covenants of good faith, fair dealing, and the commercial reasonableness of any collateral disposition, or any other contract claim, all claims of deceptive trade practices or lender liability, and all claims questioning the reasonableness or lawfulness of any act), whether arising before or after the date of this Guaranty, and whether directly or indirectly relating to: (a) this Guaranty and/or any amendments and addenda hereto or the breach, invalidity or termination hereof; (b) any previous or subsequent agreement between you and us; (c) any act committed by you or by any parent company, subsidiary or affiliated company of you (the "DFS Companies"), or by an employee, agent, officer or director of a DFS Company, whether or not arising within the scope and course of employment or other contractual representation of the DFS Companies provided that such act arises under a relationship, transaction or dealing between you and Dealer or you and us; and/or (d) any other relationship, transaction, dealing or agreement between you and Dealer or you and us (collectively the "Disputes"), will be subject to and resolved by binding arbitration.

All arbitration hereunder will be conducted in accordance with The Commercial Arbitration Rules of The American Arbitration Association ("AAA"). If the AAA is dissolved, disbanded or becomes subject to any state or federal bankruptcy or insolvency proceeding, the parties will remain subject to binding arbitration which will be conducted by a mutually agreeable arbitral forum. The parties agree that all

arbitrator(s) selected will be attorneys with at least five (5) years secured transactions experience. The arbitrator(s) will decide if any inconsistency exists between the rules of any applicable arbitral forum and the arbitration provisions contained herein. If such inconsistency exists, the arbitration provisions contained herein will control and supersede such rules. The site of all arbitrations will be in the Division of the Federal Judicial District in which AAA maintains a regional office that is closest to Dealer.

Discovery permitted in any arbitration proceeding commenced hereunder is limited as follows: No later than sixty (60) days after the filing of a claim for arbitration, the parties will exchange detailed statements setting forth the facts supporting the claim(s) and all defenses to be raised during the arbitration, and a list of all exhibits and witnesses. No later than twenty-one (21) days prior to the arbitration hearing, the parties will exchange a final list of all exhibits and all witnesses, including any designation of any expert witness(es) together with a summary of their testimony; a copy of all documents and a detailed description of any property to be introduced at the hearing. However, in the event of the designation of any expert witness(es), the following will occur: (a) all information and documents relied upon by the expert witness(es) will be delivered to the opposing party, (b) the opposing party will be permitted to depose the expert witness(es), (c) the opposing party will be permitted to designate rebuttal expert witness(es), and (d) the arbitration hearing will be continued to the earliest possible date that enables the foregoing limited discovery to be accomplished.

The Arbitrator(s) will not have the authority to award exemplary or punitive damages.

All arbitration proceedings, including testimony or evidence at hearings, will be kept confidential, although any award or order rendered by the arbitrator(s) pursuant to the terms of this Guaranty may be entered as a judgment or order in any state or federal court and may be entered as a judgment or order within the federal judicial district which includes the residence of the party against whom such award or order was entered. This Guaranty concerns transactions involving commerce among the several states. The Federal Arbitration Act ("FAA") will govern all arbitration(s) and confirmation proceedings hereunder.

Nothing herein will be construed to prevent your or our use of bankruptcy, receivership, injunction, repossession, replevin, claim and delivery, sequestration, seizure, attachment, foreclosure, dation and/or any other prejudgment or provisional action or remedy relating to any collateral for any current or future debt owed by either party to the other. Any such action or remedy will not waive your or our right to compel arbitration of any Dispute.

If either we or you bring any other action for judicial relief with respect to any Dispute (other than those set forth in the immediately preceding paragraph), the party bringing such action will be liable for and immediately pay all of the other party's reasonable costs and expenses (including attorneys' fees) incurred to stay or dismiss such action and remove or refer such Dispute to arbitration. If either we or you bring or appeal an action to vacate or modify an arbitration award and such party does not prevail, such party will pay all reasonable costs and expenses, including reasonable attorneys' fees, incurred by the other party in defending such action.

Any arbitration proceeding must be instituted: (a) with respect to any Dispute for the collection of any debt owed by either party to the other, within two (2) years after the date the last payment was received by the instituting party; and (b) with respect to any other Dispute, within two (2) years after the date the incident giving rise thereto occurred. Failure to institute an arbitration proceeding within such period will constitute an absolute bar and waiver to the institution or any proceeding with respect to such Dispute. Except as otherwise stated herein, all notices, arbitration claims, responses, requests and documents will be sufficiently given or served if mailed or delivered: (i) to us at our address below; (ii) to you at 655 Maryville Centre Drive, St. Louis, Missouri 63141-5832. Attention: General Counsel; or such other address as the parties may specify from time to time in writing.

The agreement to arbitrate will survive the termination of this Guaranty.

IF THIS GUARANTY IS FOUND TO BE NOT SUBJECT TO ARBITRATION, ANY LEGAL PROCEEDING WITH RESPECT TO ANY DISPUTE WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. WE WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH PROCEEDING.

We acknowledge and agree that this Guaranty and all agreements between Dealer and you have been substantially negotiated, and will be performed, in the state of Massachusetts. Accordingly, we agree that all Disputes will be governed by, and construed in accordance with, the laws of such state, except to the extent inconsistent with the provisions of the FAA which will control and govern all arbitration proceedings hereunder.

THIS GUARANTY CONTAINS BINDING ARBITRATION, JURY WAIVER AND PUNITIVE DAMAGES WAIVER PROVISIONS.

Date: 2/25, 2000

CORPORATE, PARTNERSHIP OR
LIMITED LIABILITY COMPANY
GUARANTOR:

PC Connection, Inc.

By: /s/ Mark Gavin

Print Name: Mark Gavin

Title: CFO

By: -----

Print Name: -----

Title: -----

Address of Guarantor(s):

Route 101A
730 Milford Road
Merrimack, NH 03054-4631

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We acknowledge and agree that this Guaranty and all agreements between Dealer and you have been substantially negotiated, and will be performed, in the state of Massachusetts. Accordingly, we agree that all Disputes will be governed by, and construed in accordance with, the laws of such state, except to the extent inconsistent with the provisions of the FAA which will control and govern all arbitration proceedings hereunder.

THIS GUARANTY CONTAINS BINDING ARBITRATION, JURY WAIVER AND PUNITIVE DAMAGES WAIVER PROVISIONS.

Date: 2/25, 2000

CORPORATE, PARTNERSHIP OR
LIMITED LIABILITY COMPANY
GUARANTOR:

PC Connection, Inc.

By: /s/ Mark Gavin

Print Name: Mark Gavin

Title: CFO

By: -----

Print Name: -----

Title: -----

Address of Guarantor(s):

ASSIGNMENT AGREEMENT
and
LESSOR CONSENT

This Assignment Agreement ("this Agreement") is dated as of the 13th day of December, 1999, by and between Micro Warehouse, Inc. ("Assignor") and PC Connection, Inc. ("Assignee").

RECITALS:

A. Assignor is the Lessee under the following Agreements of Lease:

1. Agreement of Lease dated August 12, 1991, by and between Lessee and EWE Warehouse Investment V, Ltd., a Florida limited partnership ("Lessor"), successor-in-interest to Miller-Valentine Partners, as amended (i) by that certain Amendment No. 1 to Lease dated May 1, 1992 and (ii) by that certain Amendment No. 2 to Lease dated October 18, 1992 (collectively, the "First Lease") for a term expiring September 30, 2001. Pursuant to the First Lease, Assignor leases the premises located at 2841-2901 Old State Route 73, Wilmington, Ohio (the "First Premises").

2. Agreement of Lease dated May 13, 1993, by and between Lessee and Lessor (the "Second Lease" and, collectively with the First Lease, the "Leases") for a term expiring September 30, 2003. Pursuant to the Second Lease, Assignor leases the premises located at 2907-2931 Old State Route 73, Wilmington, Ohio (collectively with the First Premises, the "Premises").

B. Pursuant to the Leases, Lessor leases to Assignor a building known as "Building 4" located at 2841-2907 Old State Route 73 South, Wilmington, Ohio 45177 containing approximately 102,400 sq. ft. of warehouse/distribution and office space and Lessee desires to assign the Leases to Assignee and obtain Lessor's consent to such assignment in accordance with the provisions of this Agreement.

C. Concurrently herewith and as a condition to the effectiveness of this Agreement, Lessor is executing and delivering to Assignee and Assignor the Lessor's Consent to Assignment attached hereto and Assignor shall execute and deliver to Assignee an estoppel certificate in the form attached hereto as Exhibit A (the "Estoppel Certificate") as of the Effective Date.

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee agree as follows:

1. Effective Date. The effective date of this Agreement (the "Effective Date") shall be the later of (i) the date each and every of the conditions in Paragraph 6 below have been satisfied,

and (ii) the date upon which Assignor delivers possession of the Premises to Assignee. The Parties expect the Effective Date to be December 20, 1999. If the Effective Date does not occur prior to January 31, 2000, either Assignor or Assignee shall have the right to terminate this Agreement by written notice to the other party and to Lessor. Subject to the satisfaction of such conditions, Assignee agrees to accept possession of the Premises on the Effective Date.

2. Assignment and Assumption of Lease. As of the Effective Date, Assignor hereby assigns, delegates and transfers to Assignee all of Assignor's rights, benefits, interests, obligations and duties under the Leases and Assignee hereby accepts and assumes from Assignor all of Assignor's rights, benefits, interests, obligations and duties under the Leases, arising from and after the Effective Date.

3. Condition of Premises. Assignor shall deliver the Premises to Assignee having been power scrubbed and in broom clean condition.

4. Apportionment of Additional Rent. Assignor shall be liable and accountable for its pro rata share of Basic Annual Rent, utilities, heating and air conditioning, real estate taxes, exterior lighting, ice and snow removal, maintenance of mechanical equipment, common area expenses, and any other amount of "additional rent" under the Leases (collectively, "Additional Rent") with respect to the periods prior to the Effective Date, as such expenses relate to the Premises. If it is later determined that Assignor has not fully paid its pro rata share of Additional Rent due under the Leases for the period prior to the Effective Date ("Underpayment"), Assignor shall pay to Assignee such amount of Underpayment upon receipt of written demand from Assignee and concurrence by Lessor. If it is later determined that Assignor overpaid its pro rata share of Additional Rent due under the Leases for the period prior to the Effective Date ("Overpayment"), Assignee shall pay to Assignor such amount of Overpayment upon receipt of written demand from Assignor and concurrence by Lessor. Assignor and Assignee shall make available to one another such information in their respective possession from time to time for the purpose of establishing the rights and obligations of the parties under this paragraph.

5. Indemnification. (a) By Assignor. Assignor shall indemnify Assignee and its shareholders, parent corporations, officers, directors, employees and agents (collectively, "Assignee Indemnities") and hold harmless Assignee Indemnities from and against all claims, losses, damages, costs and expenses, including reasonable attorney's fees and disbursements, incurred by Assignee Indemnities arising from (i) any and all obligations and liabilities arising under the Leases based on any act or omission by Assignor with respect to the period prior to the Effective Date, (ii) any and all actions relating to the Premises (including, without limitation claims for damage to any property or injury, illness or death of any person upon the Premises) based on any act or omission by Assignor which shall accrue prior to the Effective Date, and/or (iii) the breach by Assignor of any term, condition, representation or warranty, covenant or obligation contained herein.

(b) By Assignee. Assignee shall indemnify Assignor and its shareholders, parent

corporations, officers, directors, employees and agents (collectively, "Assignor Indemnitees") and hold harmless Assignor Indemnitees from and against all claims, losses, damages, costs and expenses, including reasonable attorney's fees and disbursements, incurred by Assignor Indemnitees arising from (i) any and all obligations and liabilities arising under the Leases with respect to the period on and after the Effective Date, (ii) any and all actions relating to the Premises (including, without limitation claims for damage to any property or injury, illness or death of any person upon the Premises) which shall accrue on and after the Effective Date, and (iii) the breach by Assignee of any term, condition or obligation contained herein and/or, with respect to the period on or after the Effective Date in the Leases, based on any act or omission by Assignee.

6. Conditions Precedent. (a) Condition to Assignor's Performance. The obligations of Assignor to consummate the transactions contemplated hereunder are subject to the condition that on or before December 31, 1999, Lessor shall have consented in writing as set forth herein to the assignment of the Leases to Assignee.

(b) Conditions to Assignee's Performance. The obligations of Assignee to consummate the transactions contemplated hereunder are subject to the conditions that on or before December 31, 1999 (i) Assignor shall have executed and delivered to Assignee the Estoppel Certificate in the form as attached hereto as Exhibit A and (ii) Lessor shall have consented in writing as set forth herein to the assignment of the Leases to Assignee.

7. Time of Essence. Time is of the essence with respect to each provision of this Agreement of which time is an element.

8. Brokers' Commissions. Each party hereto represents and warrants to the other party that neither party is aware of any fee, commission or any other form of compensation which is or may become payable to any broker, individual or other entity arising from or earned in connection with the transactions contemplated under this Agreement. Assignor and Assignee shall each hold the other harmless from and against all claims by any real estate broker claiming a commission through the other with respect to the transactions contemplated by this Agreement.

9. Miscellaneous.

(a) Construction of Agreement. Each party hereto acknowledges that (i) each party hereto is of equal bargaining strength; (ii) each such party has actively participated in the drafting, preparation, and negotiation of this Agreement; (iii) each such party has had the opportunity to consult with such party's attorneys and advisors relative to entering into this Agreement; and (iv) any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply in the interpretation of this Agreement, any portion hereof or any amendments hereto.

(b) Successors and Assigns. This Agreement shall inure to the benefit of and shall

bind the parties hereto and their respective personal representatives, successors and assigns.

(c) Entire Agreement. This Agreement contains the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes any and all prior or other contemporaneous understandings, correspondence, negotiations, or agreements between them respecting the within subject matter. No alterations, modifications, or interpretations hereof shall be binding unless in writing and signed by all the parties hereto.

(d) Attorneys' Fees. If any litigation is commenced between the parties hereto or their representatives concerning any provision of this Agreement or the Estoppel Certificate or the rights and duties of any person or entity in relation thereto, the party prevailing in such litigation, whether by out-of-court settlement or final judgment, shall be entitled, in addition to such other relief as may be granted, to a reasonable sum as and for attorneys' fees incurred in such litigation and any appeals in connection therewith.

(e) Notices. All notices, requests which are required or may be given hereunder shall be in writing and shall be deemed to have been duly given (i) upon receipt, if personally delivered or if sent by certified mail, return receipt requested, or (ii) the day after being sent, if sent for next day delivery to a domestic address by recognized overnight delivery service (e.g., Federal Express) or if sent by telecopy, provided that any notice sent by telecopy shall be accompanied by a copy thereof sent by regular United States mail. In each case, such notice, etc. shall be addressed:

If to Assignee, to:

PC Connection, Inc.
730 Milford Road
Merrimack, New Hampshire 03054
Attn: Robert Pratt, Director of Facilities

with copies to:

PC Connection, Inc.
730 Milford Road
Merrimack; New Hampshire 03054
Attn: Steven Markiewicz, Legal Counsel

If to Assignor, to:

Micro Warehouse, Inc.
535 Connecticut Ave.
Norwalk, CT 06854

Attn: Bruce L. Lev, Executive VP
and General Counsel

with copies to:

Micro Warehouse, Inc. of Ohio
3336 State Route 73, South
Wilmington, OH 45177
Attn: Chris Black, Vice President

(f) Governing Law; Jurisdiction. This agreement, and the parties performance hereunder, shall be governed and construed in accordance with the laws of the State of Ohio, excluding the principles of conflicts of laws thereof, applicable to agreements made and to be performed within Ohio. The parties hereto agree, and do hereby, irrevocably submit to the exclusive jurisdiction of the United States District Court or the courts of the State of Ohio located in the County in which the Premises are located. In addition, the parties hereto agree that the service of any complaint, summons or other legal paper or document relating to, or arising out of this Agreement, which service is in accordance with the notice provision set forth above, shall be deemed to be good and sufficient notice of service of such complaint, summons and/or other legal papers or documents.

IN WITNESS WHEREOF, Assignee and Assignor have executed this Agreement as of the date first written above.

PC CONNECTION, INC. (Assignee)

By: /s/ Wayne L. Wilson

Name: Wayne L. Wilson
Title: President

MICRO WAREHOUSE, INC. (Assignor)

By: [Illegible]

Name: [Illegible]
Title: Exec V.P.

EXHIBIT A

ESTOPPEL CERTIFICATE

This Estoppel Certificate is made effective as of the 13th day of December 1999 by the undersigned, Micro Warehouse, Inc. (the "Lessee"), which hereby certifies as follows for the benefit of PC Connection, Inc. ("Assignee"), as an inducement to Assignee, as assignee, accepting an assignment of the "Leases" (as defined below) from Lessee pursuant to the Assignment Agreement dated December 13, 1999 (the "Agreement"). All capitalized terms not defined herein shall have the meanings set forth in the Agreement:

1. The Leases are the only instruments and agreements in effect between EWE Warehouse Investment V, Ltd. (the "Lessor") and Lessee respecting the Premises, the Leases containing the entire agreement of the parties in that respect and there are no amendments, modifications, or supplements thereto except the Amendment.
2. Lessor is now the lessor, Lessee is now the lessee, under the Leases, and such Leases are in full force and effect.
3. Lessor has not sent any notice of default under the Leases to Lessee, nor has Lessor received from Lessee any notice that Lessor is in default under said Leases, and Lessor has no present knowledge of any facts which would give rise to a breach or default by either party under said Leases.
4. Lessor knows of no counterclaim or offset presently existing in favor of Lessor against Lessee arising out of the Leases or any act or omission by Lessee with respect to the Premises.
5. The Leases are for the terms set forth in the Agreement.
6. Basic Monthly Rent under the Leases have been paid to Lessor to December 1, 1999. No rent, whether Basic Monthly Rent or "additional rent," is delinquent under the Leases at the date hereof.
7. Assignor hereby agrees that, within fifteen (15) days after it acquires knowledge of the occurrence of any default or breach under the Leases (or of any event which, with notice or lapse of time, or both would constitute a default or breach) and in any event, simultaneously with its sending to Lessee any notice of default or breach under the Leases, to serve written notice thereof to Assignee as follows:

PC Connection, Inc.
730 Milford Road
Merrimack; New Hampshire 03054
Attn: Robert Pratt, Director of Facilities

with copies to:

PC Connection, Inc.
730 Mllford Road
Merrimack; New Hampshire 03054
Attn: Steven Markiewicz, Legal Counsel

8. Lessee hereby certifies that it has no knowledge of any violation of any law, ordinance, or governmental rule or regulation relating to the Premises and has not received any notification from any federal, state, or municipal authority having jurisdiction over the Premises alleging that any such violation exists.
9. This Certificate shall inure to the benefit of the successors and assigns of Assignee.
10. Lessee confirms that all tenant modifications that exist in the Premises are in accordance with the Lease, and, to the extent Lessor's approval is necessary, such approval has been given. Lessee agrees to indemnify and hold Assignee harmless from any claims, damages or liabilities (including reasonable attorney's fees) relating to the failure by Lessee to have obtained requisite approval for any such modification.

IN WITNESS WHEREOF, the undersigned has executed this Estoppel Certificate effective as of the date first written above.

MICRO WAREHOUSE, INC.
("Lessee")

By /s/ Bruce L. Lev

Name Bruce L. Lev
Title Executive Vice President

[Letterhead of Micro Warehouse]

March 19, 1998

Via Airborne Express

Mr. Chuck McCosh
Senior Sales Vice President
Miller Valentine Group
4000 Miller-Valentine Court
Dayton, OH 45401-0744

Re: Option to Renew
32,000 Square Feet
2907-2931 Old State Route 73
Wilmington, OH 45177
Account No. 00-1112-05

Dear Chuck:

Per your letter of March 6, delivered herewith exercise of our Option to Renew for five (5) years per our lease dated May 13,1993 commencing October 1, 1998 through September 30,2003 of the above referenced premises.

Best regards.

Very truly yours,

/s/ Bruce L. Lev

Bruce L. Lev
Executive Vice President of
Legal and Corporate Affairs

BLL/efc
Enclosure

[Miller-Valentine Group Letterhead]

Miller-Valentine Group
4000 Miller-Valentine Court
Dayton, Ohio 45439-1480
P.O. Box 744
Dayton, Ohio 45401-0744

937-293-0900
937-299-1564 FAX

March 6, 1998

CERTIFIED MAIL/RETURN RECEIPT REQUESTED

Micro Warehouse, Inc.
Attn: Bruce L. Lev. Esq.
Vice President, General Counsel
535 Connecticut Avenue
Norwalk, Connecticut 06854

RE: Option to Renew
32,000 Square Feet of Space
2907-2931 Old State Route 73, Wilmington, Ohio 45177
Acct. #00-1112-05

Dear Mr. Lev:

In accordance with Article 32 of your Lease dated May 13, 1993, there is an option to renew for an additional term of five (5) years (October 1, 1998 through September 30, 2003) which may be exercised by giving written notice by March 31, 1998. The rent will be adjusted according to the June Consumer Price Index and we will notify you of the new rate in August 1998.

This exercise of option may be done by signing below and returning to me no later than March 31, 1998. Miller-Valentine looks forward to having you at 2907-2931 Old State Route 73 for an additional five years.

Should you need any additional information, please feel free to contact me at 293-0900.

/s/ Chuck McCosh

Chuck McCosh
Senior Sales Vice President

CM:kw

Option to Renew
Micro Warehouse, Inc.
March 6, 1998
Page 2

The undersigned exercises its option to renew for a term of five (5) years as per Article 32 of the Lease dated May 13, 1993.

MICRO WAREHOUSE, INC.

BY: [Illegible]

ITS: Executive Vice-President

DATE: 3/18/98

MILLER-VALENTINE PARTNERS
WAREHOUSE/DISTRIBUTION
AGREEMENT OF LEASE

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LEASE FOR MICRO WAREHOUSE, INC.
PROPERTY LOCATED AT 2907-2931 OLD STATE ROUTE 73, Wilmington, Ohio 45177

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This LEASE made this 13th day of May, 1993, by and between MILLER-VALENTINE PARTNERS, hereinafter referred to as the Lessor, and MICRO WAREHOUSE, INC., A DELAWARE CORPORATION, hereinafter referred to as Lessee. The Lessee's business enterprise is organized as a corporation and is admitted to do business in the State of Ohio. THIS LEASE SHALL BE CONTINGENT UPON LESSOR'S RELOCATION OF RENTRAK CORPORATION AND THE TERMINATION OF RENTRAK CORPORATION'S LEASE FOR 32,000 SQUARE FEET AT 2907-2931 OLD STATE ROUTE 73, WILMINGTON, OHIO 45177.

WITNESSETH:

The Lessor does hereby lease and let to the Lessee and the Lessee accepts from the Lessor under the terms and conditions of this Lease, the following described Premises:

32,000 square feet of building (Exhibit A) which contains 102,400 square feet more or less at 2907-2931 Old State Route 73, Wilmington, Ohio 45177 hereinafter referred to as the Leased Premises.

ARTICLE 1. TERM.

TO HAVE AND TO HOLD unto the Lessee for a term of five (5) years commencing on the 1st day of October 1993, and ending on the 30th day of September 1988, both dates inclusive.

ARTICLE 2. ACCEPTANCE OF LEASED PREMISES.

The office/warehouse/distribution space shall be delivered to the Lessee in its existing condition which the Lessee has examined and finds in a condition suitable for its use and purpose. THE EXISTING DEMISING WALL SHALL BE REMOVED BY THE LESSOR AT LESSOR'S EXPENSE.

ARTICLE 3. RENT

Section 1. Lessee shall pay to the Lessor as Basic Annual Rent for the Leased Premises the sum of ONE HUNDRED TWENTY NINE THOUSAND TWO HUNDRED SEVENTY NINE AND 96/100 DOLLARS (\$129,279.96) which shall be paid in equal monthly installments of TEN THOUSAND SEVEN HUNDRED SEVENTY THREE AND 33/100 DOLLARS (\$10,733.33), due and payable on the first day of each month, in advance, without demand. Said rent shall be paid to the Lessor, or to the duly authorized agent of the Lessor, at its office during business hours. If the commencement date of this Lease is other than the first day of the month, any rental adjustment or additional rents hereinafter provided for shall be prorated accordingly. The Lessee will pay the rent as herein provided, without deduction whatsoever, and without any obligation of the Lessor to make demand for it. Any installment of rent accruing hereunder and any other sum payable hereunder, if not paid when due, shall bear interest at the rate of eighteen percent (18%) per annum until paid. The Basic Annual Rent of \$129,279.96 shall be adjusted annually based on any increases in the Consumer Price Index beginning one year after the commencement date of this Lease and at the end of each year thereafter, whether during the term of this Lease or any renewal or extension thereof. Increases in the Annual Rent shall be made in accordance with the following procedure:

a. The index to be used for this adjustment shall be the Consumer Price Index (NORTH CENTRAL REGION, All Urban Consumers, All Items, 1982-1984 equaling a base of 100, from the U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.).

b. The Consumer Price Index of 1993 for the month of June shall be the "Base Period Consumer Price Index." The Consumer Price Index for the month of June in each adjustment year shall be the "Adjustment Period Consumer Price Index."

c. The Base Period Consumer Price Index shall be subtracted from the Adjustment Period Consumer Price Index; the difference shall be divided by the Base Period Consumer Price Index. This quotient shall then be multiplied by the \$129,279.96, and the result shall then be added to the \$129,279.96. The resulting sum shall be the adjusted Annual Rent for such immediately succeeding leasehold period which shall be paid in equal monthly installments.

d. If the said Consumer Price Index is, at any time during the term of this Lease, discontinued by the Government, then the most nearly comparable index shall be substituted for the purpose of the aforesaid calculations.

Section 2. The Lessee shall reimburse the Lessor for the costs of water, gas, electricity, including electricity costs for exterior lighting, or such other utilities and heating and air conditioning maintenance in the event that such services are furnished by Lessor and not separately metered to the Lessee. Said reimbursement shall be additional rent due on the first day of the calendar month next following rendition of a bill therefore. If any services are separately metered, the cost shall be paid directly by the Lessee to the utility service. The heating and other utilities, except water, not separately metered will be prorated on the basis of the square footage serviced by a given meter and paid to Lessor as billed. The total costs of water shall be paid by the Lessees currently in occupancy and the costs thereof shall be prorated on the basis of square footage occupied by each Lessee. LESSEE SHALL PAY FOR ELECTRICITY DIRECTLY TO THE UTILITY SERVICE; WATER AND GAS SHALL BE PRORATED AS DESCRIBED ABOVE. A 10% handling fee for these billable services will be charged by the Lessor.

Section 3. The Lessee agrees to pay any increased real estate taxes over and above the real estate taxes paid by the Lessor during the first year of the term of this Lease. The Lessee's proportionate share of any such increase shall be a fraction thereof, the numerator of which is the number of square feet of floor area in the Leased Premises and the denominator of which is the total square feet of the floor area in the building both as specified aforesaid in the Lease. Said amount shall be deemed to be additional rent and shall be due and payable on the first of the month following delivery to Lessee of a receipt for Lessor's payment of said real estate taxes. The Lessee shall pay its prorated share of expenses that the Lessor shall incur by reason of compliance with new laws, orders, special rent/use taxes, ordinances and new regulations of Federal, State, County and Municipal authorities, and with any lawful direction of any public officer or officers, which lawful direction shall be imposed upon the Lessor for the common good of the occupants of the building. LESSEE SHALL NOT BE CHARGED WITH ANY EXPENSES ATTRIBUTABLE TO LESSOR'S COMPLIANCE WITH NEW ENVIRONMENTAL STATUTES, ORDERS, ETC.

ARTICLE 4. COMMON AREA.

For the purpose of this Lease, common area shall be defined as all of the property described herein that is not actually occupied by the building. The Lessee shall have the use in common with other Lessees to the parking areas and driveways for ingress and egress to the Leased Premises. PARKING IS FOR THE EXCLUSIVE USE OF THE LESSEES OCCUPYING THE BUILDING. The Lessee shall have no right to use the common area for storage purposes and trash shall be stored only in approved containers in the common area. The Lessor shall maintain the common area and keep the same in good order and repair including lighting and landscaping. The cost of exterior lighting and ice and snow removal will be prorated among the Lessees in accordance with the percentage that the Leased Premises bear to the entire building. The pro rata share of such cost will be deemed to be additional rent and shall be due the first of the month following the invoice thereof by Lessor to Lessee of the amount due.

ARTICLE 5. USE OF LEASED PREMISES.

Section 1. The Leased Premises shall be used and occupied only for DIRECT MAIL AND TELEMARKETING ACTIVITIES, WAREHOUSING AND DISTRIBUTION OF PRODUCTS AND RELATED ACTIVITIES and for no other purpose or purposes without the written consent of the Lessor.

Section 2. The Lessee shall operate its business in a safe and proper manner as is normal, considering the uses of the Leased Premises above provided; and shall not manufacture, store, display or maintain any products or materials that will endanger the Leased Premises; shall do nothing that would increase the cost of insurance on the building or invalidate existing policies; shall not obstruct the sidewalks; shall not use the plumbing for any other purpose than for which it was constructed; shall not make or permit any noise and/or odor objectionable to the public or adjacent occupants; shall not create a nuisance on the Leased Premises; and shall commit no waste.

Section 3. The Lessee shall abide by all police and fire regulations concerning the operation of its business; shall store all trash, rubbish, and debris in closed containers; and shall practice all proper procedures and methods that are common to its business enterprise. The Lessee shall maintain a minimum temperature in the Leased Premises of 55 degrees F.

ARTICLE 6. REPAIRS.

Section 1. Lessor shall keep the foundations, exterior walls (except plate glass or glass or other breakable materials used in structural portions) and roof in good repair.

Section 2. Lessor shall contract for the maintenance of the mechanical equipment and the Lessee will reimburse its pro rata share thereof. The Lessee shall replace any hot water heater as the need should arise with the same type and quality servicing the Leased Premises. The Lessor shall replace, as needed, the heating and air conditioning equipment, provided the unit has been serviced annually, and the cost of replacement shall be prorated over the warranty period for such equipment, and further prorated among the Lessee benefiting from such equipment; the result of such proration to be an annual share of cost to Lessee, and the Lessee will pay one-twelfth thereof for each month during the remaining term and renewals of this Lease.

Section 3. Lessor shall not be liable for any damage occasioned by reason of the construction of the Leased Premises, that occurs after occupancy or for failure to keep the Leased Premises in repair, unless notice of the need for repairs has been given Lessor AFTER THE SAME HAS COME TO THE EXPLICIT ATTENTION OF LESSEE, a reasonable time has elapsed and Lessor has failed to make such repairs. Lessor shall not be liable for any damage done or occasioned by or from the electrical system, the heating and/or air condition system, the plumbing and sewer system in, above, upon or about the Leased Premises nor for damage occasioned by water, snow or ice being upon or coming through the roof, trapdoor, walls, windows, doors or otherwise, except as above provided. The Lessee shall reimburse the Lessor the cost of all repairs to the Leased Premises, fixtures and appurtenances necessitated by the fault of the Lessee, its agents, employees or guests and shall reimburse the Lessor for the cost of repair, at or before the end of the term or sooner if so requested by Lessor, all injury done by the installation or removal of furniture or other property.

Section 4. Except as provided in Sections 1, 2, and 3 of this Article, Lessor shall not be obligated to make repairs, replacements or improvements of any kind upon said Leased Premises, or any equipment facilities or fixtures therein contained, which shall at all times be kept in good order, and in accordance with all applicable laws, ordinances and regulations of any governmental authority having jurisdiction. Lessee shall permit no waste, damage, or injury to the Leased Premises.

Section 5. Lessee shall forthwith at its own cost and expense replace with glass of the same kind and quality and cracked or broken glass, including plate glass or glass or other breakable materials used in structural

portions, and any interior and exterior windows and doors in the Leased Premises.

ARTICLE 7. INSTALLATION AND ALTERATIONS.

Section 1. Lessee shall not make any alterations or additions to the Leased Premises without first procuring Lessor's written consent and delivering to Lessor the plans and specifications and copies of the proposed contracts and necessary permits, and shall furnish indemnification against liens, costs, damages and expenses as may be reasonably required by Lessor. All alterations, additions, improvements and fixtures, other than trade fixtures, which may be made or installed by either of the parties hereto upon the Leased Premises and which in any manner are attached to the floors, walls or ceilings, at the termination of this Lease shall become the property of the Lessor, unless Lessor requests their removal and shall remain upon and be surrendered with the Leased Premises as a part thereof, without damage or injury; and linoleum or other floor covering of similar character which may be cemented or otherwise adhesively affixed to the floor shall likewise become the property of the Lessor, all without compensation or credit to Lessee.

Section 2. The Lessee shall not erect or install any signage without first procuring Lessor's written consent.

Section 3. The Lessee shall have no rights to use and shall not use the roof of the Leased Premises for any purpose without the written consent of the Lessor. The Lessee shall not use the roof for storage, for any activity that will result in traffic on the roof, for anything that will penetrate the roof, use the roof as an anchor or otherwise damage the roof. The consent of the Lessor must be in writing for each specific use and must also approve the method of installation of the permitted use. Should the Lessee break this covenant, the Lessee shall be responsible for any damages caused to the roof or other parts of the building and shall assume the cost of maintaining and repairing the roof during the term of the Lease, including any renewals.

ARTICLE 8. INDEMNIFICATION.

Except to the extent of the negligence or misconduct of Lessor, Lessee agrees to indemnify and hold Lessor harmless against and from any and all claims, damages, costs, and expenses, including reasonable attorney's fees, arising out of Lessee's use or occupancy of the Leased premises. Except to the extent of the Lessee's negligence or misconduct, Lessor agrees to indemnify and hold Lessee harmless against and from any and all claims, damages, costs and expenses, including reasonable attorney's fees, arising out of Lessor's failure to perform its duties and obligations as owner or agent of the owner of the property of which the Leased Premises is a part.

ARTICLE 9. INSURANCE.

Section 1. Lessee shall not carry any stock of goods or do anything in or about said Leased Premises which will in any way tend to increase insurance rates on said Leased Premises or the building in which the same are located. If Lessor shall consent to such use, Lessee agrees to reimburse Lessor on a pro rata basis for any increase in premiums for insurance against loss by fire or extended coverage risks resulting from the business carried on in the Leased Premises by Lessee. If Lessee installs any electrical equipment that overloads the power lines to the building, Lessee shall at its own expense make whatever changes are necessary to comply with the requirements of insurance underwriters and insurance rating bureaus and governmental authorities having jurisdiction.

Section 2. Lessee agrees to procure and maintain a policy or policies of insurance, at its own costs and expense, insuring from all claims, demands or actions for injury to or death of more than one person in any one accident and for damages to property in an aggregate amount of not less than \$2,000,000.00 made by or on behalf of any person or persons, firm or corporation, arising from, related to, or connected with the conduct and operation of Lessee's business in the Leased Premises. Lessor shall be named an Additional Insured Party in said policy. Such insurance shall be primary relative to any other valid and collectible insurance. Said insurance shall

not be subject to cancellation except after at least thirty (30) days prior written notice to Lessor, and the policy or policies, or duly executed certificate or certificates for the same, together with satisfactory evidence of the payment of the premium thereon, shall be deposited with Lessor at the commencement of the term and renewals of such coverage. If Lessee fails to comply with such requirement, Lessor may obtain such insurance and keep the same in effect, and Lessee shall pay Lessor the premium cost thereof upon demand.

Section 3. All property which may be upon said Leased Premises during the term hereof or any renewal thereof shall be at and upon the sole risk and responsibility of Lessee.

ARTICLE 10. DAMAGE BY FIRE OR OTHER CASUALTY.

Section 1. If the Leased Premises shall be destroyed or so injured by any cause as to be unfit, in whole or in part, for occupancy, LESSOR SHALL USE ITS BEST EFFORTS TO PROVIDE OCCUPANCY IN COMPARABLE SPACE WITHIN SIXTY (60) MILES OF THE LEASED PREMISES AND IF LESSOR CANNOT PROVIDE SUCH SPACE, LESSEE MAY TERMINATE THIS LEASE. IF THE LESSOR HAS PROVIDED SUCH TEMPORARY SPACE and such destruction or injury could reasonably be repaired within three (3) months from the happening of such destruction or injury, then Lessee shall not be entitled to surrender possession of the Leased Premises nor shall Lessee's liability to pay rent under this Lease cease without mutual consent of the parties hereto, but in case of any such destruction or injury Lessor shall repair the same with all reasonable speed and shall complete such repairs within three (3) months from the happening of such injury, and if during such period Lessee shall be unable to use all or any portion of the Leased Premises, a proportionate allowance shall be made to Lessee from the rent corresponding to the time during which and to the portion of the Leased Premises of which Lessee shall be so deprived of the use on account thereof.

Section 2. If such destruction or injury cannot reasonably be repaired within three (3) months from the happening thereof, Lessor shall notify Lessee within ten (10) days after the happening of such destruction or injury whether or not Lessor will repair or rebuild. If Lessor elects not to repair or rebuild, this Lease shall be terminated. If Lessor shall elect to repair or rebuild, Lessor shall specify the time within which such repairs or reconstruction will be complete, and Lessee shall have the option, within ten (10) days after the receipt of such notice, to elect either to terminate this Lease and further liability hereunder, or to extend the term of the Lease by a period of time equivalent to the time from the happening of such destruction or injury until the Leased Premises are restored to their former condition. In the event Lessee elects to extend the term of the Lease, Lessor shall restore the Leased Premises to their former condition within the specified time in the notice, and Lessee shall not be liable to pay rent for the period from the time of such destruction or injury until the Leased Premises are so restored to their former condition.

ARTICLE 11. EMINENT DOMAIN.

Section 1. If the whole or substantially all of the Leased Premises hereby leased shall be taken by a public authority under the power of eminent domain, then the term of this Lease shall cease as of the day possession shall be taken by such public authority, and the rent shall be paid up to that date with a proportionate refund by Lessor of such rent as shall have been paid in advance.

Section 2. If less than substantially all of the floor area of the Leased Premises shall be so taken, the term of this Lease shall cease only on the parts so taken as of the day possession shall be taken by such public authority, and the rent shall be paid up to that day with a proportionate refund by Lessor of such rent as may have been paid in advance, and thereafter the minimum rent shall be equitably abated, and Lessor shall at its own cost and expense make all necessary repairs or alterations as to constitute the remaining Leased Premises a complete architectural unit.

Section 3. All damages awarded for such taking under the power of eminent domain, whether for the whole or a part of the Leased Premises,

shall be the property of Lessor whether such damages shall be awarded as compensation for diminution in value of the leasehold or to the fee of the Leased Premises; provided, however, that the Lessor shall not be entitled to any separate award made to Lessee for loss of business, depreciation to and cost of removal of stock and fixtures.

ARTICLE 12. ASSIGNMENT OR SUBLETTING.

Section 1. Lessee shall not assign or in any manner transfer this Lease or any interest therein, NOR SUBLET SAID leased Premises or any part or parts thereof, nor permit occupancy by anyone with, through, or under it, without the previous written consent of Lessor which consent shall not be unreasonably withheld. Consent by Lessor to one or more assignments of this Lease or to one or more sublettings of the Leased Premises shall not operate as a waiver of Lessor's rights under this Article to any subsequent assignment or subletting. No assignment shall release Lessee of any of its obligations under this Lease or be construed or taken as a waiver of any of Lessor's rights or remedies hereunder.

Section 2. Neither this Lease nor any interest therein, nor any estate thereby created, shall pass to any trustee or receiver in bankruptcy or any assignee for the benefit of creditors or by operation of law.

Section 3. provided that the Lessee with Lessor's consent assigns or sublets part or all of the Leased premises at a rental that exceeds the current rental herein reserved, the Lessor shall be entitled to receive as additional rental one-half of such excess of the current rental. The Lessee shall remit one-half of such excess within five (5) days after receipt by it.

ARTICLE 13. ACCESS TO LEASED PREMISES.

The Lessor shall retain duplicate keys to all of the doors of the Leased Premises. The Lessor or its agents shall have the right to enter upon the Leased Premises at all reasonable hours for the purpose of inspecting the same or of making repairs, additions or alterations thereto or to the building in which the same are located. The Lessor shall have the right, upon reasonable notice, to show the Leased Premises to prospective Lessees, purchasers or others. Lessor shall not be liable to Lessee in any manner for any expense, loss or damage by reason thereof, nor shall the exercise of such right be deemed an eviction or disturbance of Lessee's use or possession. LESSOR SHALL PROVIDE LESSEE WITH A LIST OF ALL PERSONNEL WHO WILL HAVE ACCESS TO DUPLICATE KEYS AND TO THE PREMISES. ONLY THOSE PREAPPROVED LESSOR PERSONNEL MAY ENTER THE PREMISES.

ARTICLE 14. ATTORNNMENT.

In the event the herein Leased Premises are sold due to any foreclosure sale or sales, by virtue of judicial proceedings or otherwise, this Lease shall continue in full force and effect, and Lessee agrees, upon request, to attorn to and acknowledge the foreclosure purchaser or purchasers at such sale as Lessors hereunder; provided such purchaser will recognize this Lease, unless and until it is in default.

ARTICLE 15. LIMITATION UPON LIABILITY.

Notwithstanding any other provision of this Lease, Lessee agrees to look solely to Lessor's interest in the Building (subject to any mortgage on the Building) for the recovery of any judgment requiring the payment of money by Lessor; it being agreed that Lessor, and if Lessor is a partnership, its partners whether general or limited or if Lessor is a corporation, its directors, officers, or shareholders, shall never be personally liable for any such judgment, and no other assets of the Lessor shall be subject to levy, execution or other procedures for the satisfaction of Lessee's judgment. The provision contained in the foregoing sentence is not intended to, and shall not, limit any right that Lessee might otherwise have to obtain injunctive relief against Lessor or Lessor's successors in interest, or to maintain any other action not involving the personal liability of Lessor, or to maintain any

suit or action in connection with enforcement or collection of amounts which may become owing or payable under or on account of insurance maintained by Lessor.

ARTICLE 16. LESSOR'S SUCCESSORS.

The term "Lessor" as used in this Lease shall be limited to mean and include only the owner or owners, at the time, of the fee of the Building, their successors and assigns, so that in the event of any sale or sales of the Building, the previous Lessor shall be entirely released with respect to the performance of all subsequently accruing covenants and obligations on the part of Lessor. The retention of fee ownership by a lessor of the Building or of the land on which it is located under an underlying lease which is now or hereafter in effect, shall not be deemed to impose on such underlying lessor any liability, initial or continuing, for the performance of the covenants and obligations of Lessor.

ARTICLE 17. LESSEE'S DEFAULT.

Section 1. The Lessee, ten (10) days after receipt of written notice, shall be considered in default of this Lease upon failure to pay when due the rent or any other sum required by the terms of the Lease; failure to perform any term, covenant or condition of this Lease; the commencement of any action or proceeding for the dissolution, liquidation or reorganization under the Bankruptcy Act, of Lessee, or for the appointment of a receiver or trustee of the Lessee's property; the making of any assignment for the benefit of creditors by Lessee; the suspension of business; or the abandonment of the Leased Premises by the Lessee. ANY DEFAULTS OTHER THAN NONPAYMENT DEFAULTS SHALL HAVE A THIRTY (30) DAY CURE PERIOD.

Section 2. In the event of default of this Lease by Lessee, then Lessor MAY PURSUE ANY AND ALL REMEDIES AND RIGHTS AVAILABLE TO THE LESSOR UNDER APPLICABLE OHIO LAW. Should Lessor elect to reenter, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease, or it may without terminating this Lease relet said Leased Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Lessor may deem advisable, with the right to make alterations and repairs to said Leased Premises for the purpose of re rental. Should such rentals received from such reletting during any month be less than required to be paid by Lessee as defined above, then Lessee shall immediately pay such deficiency to Lessor. Should Lessor at any time terminate this Lease for any breach or act of default, in addition to any other remedy it may have, it may recover from Lessee all damages it may incur by reason of such breach or act of default.

ARTICLE 18. SURRENDER OF LEASED PREMISES.

Section 1. If Lessee holds possession of the Leased Premises after the termination of this Lease for any reason, Lessee shall pay Lessor double the rent provided for herein for such period that Lessee holds over, but such payment of rent shall not create any Lease arrangement whatsoever between Lessor and Lessee, unless expressly agreed to in writing by Lessor. It is further understood that during such period that Lessee holds over, the Lessor retains all of Lessor's rights under this Lease, including damages as a result of the termination of this Lease and the right to immediate possession of the Leased Premises. This paragraph shall not be construed to grant Lessee permission to hold over.

Section 2. At the expiration of the tenancy created hereunder, whether by lapse of time or otherwise, Lessee shall surrender the Leased Premises broom clean, free of tire marks, free of all debris and in good condition and repair, reasonable wear and loss by fire or other unavoidable casualty excepted.

Section 3. Prior to surrender of the Leased Premises, the Leased Premises will be reviewed by a representative of the Lessor and Lessee to determine if there is any deferred maintenance or unrepaired damage, Lessor may effect such maintenance and repairs, and Lessee will pay the cost thereof.

Section 4. Upon the expiration of the tenancy hereby created, if Lessor so requests in writing, Lessee shall promptly remove any additions, fixtures and installations placed in the Leased Premises by Lessee that is designated in said request, and repair any damage occasioned by such removals at its own expense, and in default thereof, Lessor may effect such removals and repairs, and Lessee shall pay Lessor the cost thereof, with interest at the rate of eight (8) percent per annum from the date of payment by Lessor.

ARTICLE 19. SUBORDINATION.

This Lease shall be subject to and subordinate at all times to the lien of any mortgages, now or hereafter made on the Leased Premises, and to all advances made or hereafter to be made thereunder. The Lessee agrees to execute a subordination agreement should Lessor's lender request same.

ARTICLE 20. NOTICE.

All notices under this Lease may be personally delivered; sent by courier service, with receipt; or mailed to the address shown by certified mail, return receipt requested. The effective date of any mailed notice shall be one (1) day after delivery of the same to the United States Postal Service.

Lessor: Miller-Valentine Partners
Mail: P.O. Box 744
Dayton, Ohio 45401-0744

Lessee: Micro Warehouse, Inc.
Mail: ATTN: Mr. Peter Godfrey, President
47 Water Street
South Norwalk, Connecticut 06854

cc: Lev, Spalter & Berlin, P.C.
ATTN: Mr. Bruce L. Lev
P.O. Box 5318, 105 Rowayton Avenue
Rowayton, Connecticut 06853

Either party may from time to time designate in writing other addresses.

ARTICLE 21. WAIVER OF SUBROGRATION.

The Lessor and Lessee waive all rights, each against the other, for damages caused by fire or other perils covered by insurance where such damages are sustained in connection with the occupancy of the Leased Premises.

ARTICLE 22. ESTOPPEL CERTIFICATE.

The Lessee agrees to execute an Estoppel Certificate within ten (10) days of receipt of a written request by Lessor for the benefit of any purchaser and/or prospective Lender designated by Lessor as well as Lessor's present Lender; that wherein the Lessee acknowledges the terms and conditions of this Lease.

ARTICLE 23. RENT DEMAND.

Every demand for rent due wherever and whenever made shall have the same effect as if made at the time it falls due and at the place of payment, and after the service of any notice or commencement of any suit, or final judgment therein, Lessor may receive and collect any rent due, and such collection or receipt shall not operate as a waiver of nor affect such notice, suit or judgment.

ARTICLE 24. NO REPRESENTATION BY LESSOR.

Lessor and its agent have made no representations or promises with respect to the Leased Premises or the building of which the same form a part except as herein expressly set forth. LESSOR REPRESENTS THAT ALL SYSTEMS AND DEMISED PREMISES WILL BE IN GOOD WORKING ORDER AND IN FULL COMPLIANCE WITH LAW

AND THE PROVISIONS OF THE CERTIFICATE OF OCCUPANCY UPON COMMENCEMENT OF THE LEASE.

ARTICLE 25. WAIVER OF BREACH.

No waiver of any breach of the covenants, provisions or conditions contained in this Lease shall be construed as a waiver of the covenant itself or any subsequent breach itself, and if any breach shall occur and afterwards be compromised, settled or adjusted, this Lease shall continue in full force and effect as if no breach had occurred, unless otherwise agreed. The acceptance of rent hereunder shall neither be or construed to be a waiver of any breach of any term, covenant or condition of this Lease.

ARTICLE 26. QUIET ENJOYMENT.

Lessor hereby covenants and agrees that if Lessee shall perform all the covenants and agreements herein stipulated to be performed on Lessee's part, Lessee shall at all times during the continuance hereof have the peaceable and quiet enjoyment and possession of the Leased Premises without any manner of let or hindrance from Lessor or any person or persons lawfully claiming the Leased Premises except as otherwise provided for herein.

ARTICLE 27. ENVIRONMENTAL PROVISIONS

Section 1. The Lessor, to the best of its knowledge, represents to the Lessee that no toxic, explosive or other dangerous materials or hazardous substances have been concealed within, buried beneath, released on or from, or removed from and stored off-site of the Property upon which the Leased Premises is constructed.

Section 2. Lessee shall at all times during the term of this Lease comply with all applicable federal, state, and local laws, regulations, administrative rulings, orders, ordinances, and the like, pertaining to the protection of the environment, including but not limited to, those regulating the handling and disposal of waste materials. Further, during the term of this Lease, neither Lessee nor any agent or party acting at the direction or with the consent of Lessee shall treat, store or dispose of any "hazardous substance," as defined in Section 101 (14) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") or petroleum (including crude oil or any fraction thereof) on or from the Property.

Section 3. Lessee shall fully and promptly pay, perform, discharge, defend, indemnify and hold harmless Lessor from any and all claims, orders, demands, causes of action, proceedings, judgments, or suits and all liabilities, losses, costs or expenses (including, without limitation, technical consultant fees, court costs, expenses paid to third parties and reasonable legal fees) and damages arising out of, or as a result of, (i) any "release" as defined in Section 101 (22) of CERCLA, of any "hazardous substance," as defined in Section 101 (14) of CERCLA, or petroleum, (including crude oil or any fraction thereof) or placed into, on or from the Property at any time after the date of this Lease by Lessee, its agents, or employees; (ii) any contamination of the Property's soil or groundwater or damage to the environment and natural resources of the Property the result of actions occurring after the date of this Lease, whether arising under CERCLA or other statutes and regulations, or common law by Lessee, its agents, or employees; and (iii) any toxic, explosive or otherwise dangerous materials or hazardous substances which have been buried beneath, concealed within or released on or from the Property after the date of this Lease by Lessee, its agents, or employees. LESSOR INDEMNIFIES THE LESSEE FROM ANY OF THE CLAIMS OUTLINED ABOVE ATTRIBUTABLE TO ACTS AND CIRCUMSTANCES PRIOR TO THE DATE OF LESSEE'S OCCUPANCY OR SUBSEQUENT TO LESSEE'S OCCUPANCY IF NOT SPECIFICALLY ATTRIBUTABLE TO THE CONDUCT OF THE LESSEE, ITS AGENTS OR EMPLOYEES.

ARTICLE 28. INTERPRETATION.

Section 1. Wherever either the word "Lessor" or "Lessee" is used in the Lease, it shall be considered as meaning the singular and/or neuter pronouns as used herein, and the same shall be construed as including all

persons and corporations designated respectively as Lessor or Lessee in the heading of this instrument wherever the context requires.

Section 2. If any clause, sentence, paragraph, or part of this Lease shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not effect, impair, or invalidate the remainder of this Lease, but be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered, and in all other respects said Lease shall continue in full force and effect.

ARTICLE 29. FINANCIAL STATEMENTS.

At Lessor's request, AND BECAUSE OF MORTGAGING REQUIREMENTS, the Lessee, within thirty (30) days of Lessor's request, shall furnish the Lessor with Lessee's most current financial statements including the Lessee's balance sheet, a consolidated statement of earnings and retained earnings, and changes in Lessee's financial position for such year. All such statements shall be certified by an independent certified public accountant. All such financial statements shall be prepared in accordance with generally accepted accounting principles which shall be consistently applied. ALL SUCH FINANCIAL STATEMENTS SHALL BE DELIVERED TO THE LENDER ON A FULLY CONFIDENTIAL BASIS.

ARTICLE 30. AMERICANS WITH DISABILITIES ACT COMPLIANCE.

Notwithstanding anything set forth herein to the contrary, Lessor shall be solely responsible and liable for making any modifications to the exterior of the Premises (including the doors and entrances leading to the Leased Premises) that may be required to comply with the Americans with Disabilities Act of 1990 as it may be amended from time to time ("ADA"). Lessee shall pay its pro rata share of any and all costs and expenses associated with any modifications required under the ADA for the common areas of the building in which the Premises are located. Lessee, at its sole cost and expense, shall remove any barriers or provide such accommodations as may be necessary for the interior of the Leased Premises to comply with the ADA. Any structural alterations or renovations that the Lessee may make to the Premises, as permitted under this Lease, shall comply with the accessibility standards and regulations of the ADA. If the Lessee fails to fulfill its obligations under this Article, the Lessor may elect to provide the modifications and renovations required pursuant to the ADA and seek reimbursement from the Lessee. Should the Lessor incur any such expenses for the obligations of the Lessee, the amount of such expenses may, at the Lessor's option, be added to the rent due from the Lessee under the terms of this Lease. Lessor and Lessee hereby mutually indemnify and hold each other harmless against any and all liability, losses, fines or other penalties that may be incurred or assessed against the other, including reasonable attorney fees, due to the failure of the other to adhere to their respective obligations under this Article of the Lease.

ARTICLE 31. MEMORANDUM OF LEASE.

It is agreed by both parties that this instrument is not recordable and if either party should record the same in the Office of the Recorder of Clinton County, Ohio, the recording shall have no effect. When possession of the Leased Premises has been delivered to Lessee, the parties hereto may execute, acknowledge and deliver a Memorandum of Lease in recordable form specifying the terms of this Lease and renewal periods of this Lease. In the event they differ from the dates wherein, the date in the Memorandum shall control.

ARTICLE 32. OPTION TO RENEW

Lessee is hereby granted an option to renew this Lease for an additional term of five (5) years on the same terms and conditions contained herein except for the rental and the length of the term, upon the conditions that:

a. written notice of the exercise of such option shall be given by Lessee to Lessor not less than one hundred eighty (180) days prior to the end of the term of this Lease; and

b. at the time of the giving of such notice and at the expiration of the term of this Lease, there are no defaults in the covenants, agreements, terms and conditions on the part of Lessee to be kept and performed, and all rents are and have been fully paid. Provided also, that the rent to be paid during each year of the said renewal period shall be as determined in accordance with the following procedure:

(1) The index to be used for this adjustment shall be the Consumer Price Index ([ILLEGIBLE], All Urban Consumers, All Items, 1982-1984 equaling a base of 100, from the U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.).

(2) The Consumer Price Index of 1993 for the month of June shall be the "Base Period Consumer Price Index."

(3) The Consumer Price Index for the month of June each succeeding year shall be determined from the published figures and shall be the "Adjustment Period Consumer Price Index."

(4) The Base Period Consumer Price Index shall be subtracted from the Adjustment Period Consumer Price Index; the difference shall be divided by the Base Period Consumer Price Index. This quotient shall then be multiplied by \$129,279.96 and the result shall then be added to \$129,279.96. This arithmetical sum shall then be the adjusted Basic Annual Rent for such immediately succeeding leasehold year which shall be paid in equal monthly payments.

(5) If the said Consumer Price Index is, at any time during the term of this Lease, discontinued by the Government, then the most nearly comparable index shall be substituted for the purpose of the aforesaid calculations.

ARTICLE 33. ENTIRE AGREEMENT.

This Lease contains the entire agreement between the parties; it supersedes all previous understandings and agreements between the parties, if any, and no oral or implied representation or understandings shall vary its terms; and it may not be amended except by a written instrument executed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto set their hands to triplicates hereof, this 13th day of May, 1993, as to Lessor, and this 6th day of May, 1993 as to Lessee.

Signed and acknowledged in the presence of: LESSOR: MILLER-VALENTINE PARTNERS
By: /s/ James M. Miller
James M. Miller
Its: Senior Partner

LESSEE: MICRO WAREHOUSE, INC.
By: Peter Godfrey
Peter Godfrey
Its: President

STATE OF OHIO, COUNTY OF MONTGOMERY, SS:

The foregoing instrument was acknowledged before me this 13th day of May, 1993, by James M. Miller, Senior Partner on behalf of MILLER-VALENTINE PARTNERS, an Ohio general partnership.

/s/ Sharon L. Rislund

Notary Public

SHARON L. RISLUND, Notary Public
In and for the State of Ohio
My Commission Expires Oct. 31, 1996
[SEAL]

STATE OF CONNECTICUT, COUNTY OF FAIRFIELD, SS:

The foregoing instrument was acknowledged before me this 6th day of May, 1993, by peter Godfrey the President of MICRO WAREHOUSE, INC., a corporation, on behalf of said corporation.

/s/ Melinda R. Levins

Notary Public

My Commission Exp. June 30, 1998

(MILLER VALENTINE GROUP LOGO)

MILLER-VALENTINE Group
4000 Miller-Valentine Court
Dayton, Ohio 45439-1467
P.O. Box 744
Dayton, Ohio 45401-0744

513-293-0900
513-299-1564 (FAX)

March 18, 1996

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

Micro Warehouse, Inc.
ATTN: Mr. Peter Godfrey
President
535 Connecticut Avenue
South Norwalk, Connecticut 06854

RE: Option to Renew
70,400 Square Feet of Space
2841-2901 Old State Route 73
Wilmington, Ohio 45177

Dear Peter:

In accordance with Item No. 4, Article 32 of your Lease Amendment No. 2 dated October 18, 1992, there is an option to renew for an additional five (5) years (October 1, 1996 through September 30, 2001) which may be exercised by giving written notice by March 31, 1996. The rent will be adjusted as per the June Consumer Price Index and we will notify you of the new rate in July 1996.

This exercise of option may be done by signing below and returning to me no later than March 31, 1996. We look forward to having your continued tenancy in our Wilmington park.

Should you require any additional information, please feel free to contact me at (513) 293-0900.

MILLER-VALENTINE REALTY, INC.

/s/ Chuck McCosh
Chuck McCosh
Sales Vice President

:ma

cc: Bruce Lev
Mel Seiler

Miller
Valentine
Group

Mr. Peter Godfrey
March 18, 1996
Page 2

The undersigned exercises its option to new for a five year term as per Article
32 of Lease, as amended.

ACCEPTED BY: /s/ Bruce L. Lev

TITLE: Vice President, General Counsel

DATE: 3/29/96

AMENDMENT NO. 2 TO LEASE

THIS AGREEMENT made this 18th day of October, 1992, by and between MILLER-VALENTINE PARTNERS, as Lessor and MICRO WAREHOUSE, INC., as Lessee located at 2841-2883 Old State Route 73, Wilmington, Ohio 45177.

WITNESSETH:

WHEREAS, Lessor and Lessee entered into a Lease dated August 12, 1991, as amended May 1, 1992, and

WHEREAS, the Lessor and Lessee desire to amend the Lease to increase the square footage and revise the CPI increase.

NOW THEREFORE, the Lease is amended as follows.

1. Effective November 1, 1992 Lessee shall lease from Lessor an additional 19,200 square feet at 2889-2895 Old State Route 73, Wilmington, Ohio 45177 for a total of 70,400 square feet which includes 1,225 square feet of office of a building which contains 102,400 square feet.

2. ARTICLE 2. LEASED PREMISES. Shall be revised as follows.

"Effective November 1, 1992, Lessee accepts the additional 19,200 square footage in its existing condition which the Lessee has examined and finds in a condition suitable for its use and purpose."

3. ARTICLE 4. RENT. SECTION 1. shall be revised as follows.

"Effective November 1, 1992, Lessee shall pay to Lessor as Rent for the period November 1, 1992 through September 30, 1993 the sum of TWO HUNDRED FORTY FOUR THOUSAND FORTY EIGHT AND 58/100 DOLLARS (\$244,048.53) which shall be paid in equal monthly installments of TWENTY TWO THOUSAND ONE HUNDRED EIGHTY SIX AND 23/100 DOLLARS (\$22,186.23) due and payable on the first day of each month, in advance, without demand... The Basic Annual Rent of \$266,234.76 shall be adjusted annually based on any increases in the Consumer Price Index beginning October 1, 1993 and at the end of each year thereafter, whether during the term of this Lease or any renewal or extension thereof. Increases in the Annual Rent shall be made in accordance with the following procedure:

a. The index to be used for this adjustment shall be the Consumer Price Index (NORTH CENTRAL REGION, All Urban Customers, All Items, 1982-1984 equaling a base of 100 from the U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.).

b. The Consumer Price Index of 1992 for the month of June shall be the "Base Period Consumer Price Index." The Consumer Price Index for the month of June in each adjustment year shall be the "Adjustment Period Consumer Price Index."

c. The Base Period Consumer Price Index shall be subcontracted from the Adjustment Period Consumer Price Index; the difference shall be divided by the Base Period Consumer Price Index. This quotient shall then be multiplied by \$266,234.76, and the result shall then be added to the \$266,234.76. The resulting sum shall be the adjusted Annual Rent for such immediately succeeding leasehold period which shall be paid in equal monthly installments.

d. If the said Consumer Price Index is, at any time during the term of this Lease, discontinued by the Government, then the most nearly comparable index shall be substituted for the purpose of the aforesaid calculations.

4. ARTICLE 32. OPTION TO RENEW. (4) shall be revised as follows.

"(1) The index to be used for this adjustment shall be the Consumer Price Index (NORTH CENTRAL REGION, All Urban Consumers, All Items, 1982-1984 equaling a base of 100, from the U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.).

(2) The Consumer Price Index of 1992 for the month of June shall be the "Base Period Consumer Price Index."

EXHIBIT "A"

(3) The Consumer Price Index for the month of June each succeeding year shall be determined from the published figures and shall be the "Adjustment Period Consumer Price Index."

(4) The Base Period Consumer Price Index shall be subcontracted from the Adjustment Period Consumer Price Index; the difference shall be divided by the Base Period Consumer Price Index. This quotient shall then be multiplied by \$266,234.76, and the result shall then be added to \$266,234.76. This arithmetical sum shall then be the adjusted Basic Annual Rent for such immediately succeeding leasehold year which shall be paid in equal monthly payments.

(5) If the said Consumer Price Index is, at any time during the term of this Lease, discontinued by the Government, then the most nearly comparable index shall be substituted for the purpose of the aforesaid calculations."

5. Except as expressly amended herein, all other terms and conditions of the Lease remain in full force and effect.

IN WITNESS WHEREOF, the Lessor and Lessee have affixed their signatures to triplicates of this Amendment, this 18th day of October, 1992, as to Lessee and this 27th day of October, 1992, as to the Lessor.

Signed and acknowledged LESSOR: MILLER-VALENTINE PARTNERS
in the presence of:

/s/ [Illegible] By: /s/ James M. Miller

James M. Miller
/s/ [Illegible] Title: Senior Partner

LESSEE: MICRO WAREHOUSE, INC.
/s/ [Illegible] By: /s/ Peter Godfrey

Peter Godfrey
/s/ [Illegible] Title: President

STATE OF OHIO, COUNTY OF MONTGOMERY, SS:

The foregoing instrument was acknowledged before me this 27th day of October 1992, by James M. Miller, Senior Partner, on behalf of MILLER-VALENTINE PARTNERS.

/s/ Sharon L. Rislund

NOTARY PUBLIC

SHARON L. RISLUND, Notary Public
In and for the State of Ohio
My Commission Expires Oct. 31, 1996
[SEAL]

STATE OF CONNECTICUT, COUNTY OF FAIRFIELD, SS: ROWAYTON

The foregoing instrument was acknowledged before me this 18th day of October, 1992, by PETER GODFREY, the PRESIDENT OF MICRO WAREHOUSE, INC., a corporation on behalf of said corporation.

/s/ Melinda R. LeVino

NOTARY PUBLIC

My Commission Exp. Mar. 31, 1993

MELINDA R. LeVINO
Notary Public
My Commission Expires Mar. 31, 1993

[GRAPHIC: BLDG #4 DIAGRAM; 2835 OLD STATE ROUTE 73; INDUSTRIAL BUILDING]

AMENDMENT NO. 1 TO LEASE

THIS AGREEMENT made this 1st day of May, 1992, by and between MILLER-VALENTINE PARTNERS, as Lessor and MICRO WAREHOUSE, INC., as Lessee located at 2841-2883 Old State Route 73, Wilmington, Ohio 45177.

WITNESSETH:

WHEREAS, Lessor and Lessee entered into a Lease dated August 12, 1991, and

WHEREAS, the Lessor and Lessee desire to amend the Lease to add office space.

NOW THEREFORE, the Lease is amended as follows.

1. Effective May 1, 1992 Lessee shall lease 51,200 square feet including 1,225 square feet of office of a building which contains 102,400 square feet.

2. Article 4. Rent. Section 1. shall be revised as follows.

"Effective May 1, 1992, Lessee shall pay to Lessor as Rent for the period May 1, 1992 through September 30, 1992 the sum of SEVENTY SEVEN THOUSAND THREE HUNDRED TWENTY AND 80/100 DOLLARS (\$77,320.80) which shall be paid in equal monthly installments of FIFTEEN THOUSAND FOUR HUNDRED SIXTY FOUR AND 16/100 DOLLARS \$15,464.16), due and payable on the first day of each month, in advance, without demand. ...The Basic Annual Rent of \$185,569.92 shall be adjusted annually..."

3. Article 32. Option to Renew. (4) shall be revised as follows.

"...The quotient shall then be multiplied by \$185,569.92 and the result shall then be added to \$185,569.92. ..."

4. Except as expressly amended herein, all other terms and conditions of the Lease remain in full force and effect.

In witness whereof, THE Lessor and Lessee have affixed their signatures to triplicates of this Amendment, this 1st day of May, 1992, as to Lessee and this 4th day of June, 1992, as to Lessor.

/s/ [Illegible] By: /s/ James M. Miller

James M. Miller
/s/ [Illegible] Title: Senior Partner

LESSEE: MICRO WAREHOUSE, INC.

/s/ Marie Gagstetter By: Peter Godfrey

Marie Gagstetter Peter Godfrey
/s/ Bruce L. Lev Title: President

Bruce L. Lev

STATE OF OHIO, COUNTY OF MONTGOMERY, SS:

The foregoing instrument was acknowledged before me this 4th day of June, 1992, by James M. Miller, Senior Partner, on behalf of MILLER-VALENTINE PARTNERS.

/s/ Shirley J. Kidd

NOTARY PUBLIC [SEAL]
SHIRLEY J. KIDD, NOTARY PUBLIC
IN AND FOR THE STATE OF OHIO
MY COMMISSION EXPIRES AUGUST 24, 1992

STATE OF CONNECTICUT, COUNTY OF FAIRFIELD, SS:

The foregoing instrument was acknowledged before me this ____ day of _____, 1992, by Peter Godfrey, the President of MICRO WAREHOUSE, INC., a corporation on behalf of said corporation.

/s/ Marie Gagstetter

NOTARY PUBLIC

MARIE GAGSTETTER
MY COMMISSION EXPIRES SEPT. 30, 1997

EXHIBIT A

Outline Specification

June 25, 1991

Prepared For

MICRO WAREHOUSE, INC.

Area: 51,200 Square Feet (360'x160') See Exhibit B

Clear Height: 19' under bar joist.

Type of Construction: Tilt-up concrete and steel.

Doors: 8 dock-high doors (8'x9') with levelers per bay and one drive-in door (12'x14')

1 decorative glass office entry door with side lite

Additional manddoors and steps as required by fire code

Insulation: .1 U factor both roof and walls

Sprinkler: Wet pipe system to meet requirements of Insurance Services of Ohio

Electrical Entrance Service: 400 amp. 220/480 V. 3 Phase

Lighting: 20 foot candles measured at three feet off the floor

Heating: Gas fired unit heaters designed to maintain 60 degrees inside at 0 degrees outside

Restrooms: One set of restrooms designed to meet the code requirements for Micro Warehouse's operation. To include drinking fountain and janitor sink.

Office: Office space will be specifically designed to meet your requirements. Costs are not included in the base lease rate.

Additional Features: Entire structure painted inside and out, 6" floor slabs, quality landscaping, and plenty of parking spaces.

The above specifications reflect the "base standard" for warehouse/distribution. Any item may be upgraded at Lessee's expense to meet individual requirements.

MILLER-VALENTINE PARTNERS
WAREHOUSE/DISTRIBUTION
AGREEMENT OF LEASE

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PROPERTY LOCATED AT 2841-2883 Old State Route 73, Wilmington, Ohio 45177

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MILLER-VALENTINE PARTNERS
WAREHOUSE/DISTRIBUTION

AGREEMENT OF LEASE

THIS LEASE made this [Illegible] day of August, 1991, by and between MILLER-VALENTINE PARTNERS, hereinafter referred to as the Lessor, and MICRO WAREHOUSE, INC., a Connecticut corporation, hereinafter referred to as Lessee. The Lessee's business enterprise is organized as a corporation and is admitted to do business in the State of Ohio.

WITNESSETH:

The Lessor does hereby lease and let to the Lessee and the Lessee accepts from the Lessor under the terms and conditions of this Lease, the following described Premises:

51,200 square feet of a building which contains 102,400 square feet more or less at 2841-2889 Old State Route 73, Wilmington, Ohio 45177 hereinafter referred to as the Leased Premises.

ARTICLE 1. TERM.

TO HAVE AND TO HOLD unto the Lessee for a term of FIVE (5) years commencing on the 1st day of October 1991, and ending on the 30th day of September 1996, both dates inclusive.

ARTICLE 2. LEASED PREMISES.

The office/warehouse/distribution space shall be delivered to the Lessee as per Exhibit A. Outline Specification dated June 25, 1991. This Specification will be revised once the office facilities have been finalized and will be attached as Exhibit A-1.

ARTICLE 3. POSSESSION.

THE LESSOR SHALL PROVIDE THE LESSEE WITH A CERTIFICATE OF OCCUPANCY AT TIME OF OCCUPANCY WHICH SHALL BE NO LATER THAN OCTOBER 1, 1991. If Lessor is unable to give occupancy of the Leased Premises on the above date because construction has not been completed, the term shall commence on the first of the month following completion and continue thereafter for the full term granted. Lessor shall not be liable for damages because of such delay in occupancy. Provided, however, if the Lessee's occupancy is delayed by fault of Lessor more than sixty (60) days after the commencement date, the Lessee may after thirty (30) days written notice elect to terminate this Lease if Lessor is not able to deliver occupancy before such termination date. If the delay in completion is caused by the Lessee, the term shall commence and rent will start irrespective of the Leased Premises not being ready for occupancy.

ARTICLE 4. RENT.

Section 1. Lessee shall pay to the Lessor as Basic Annual Rent for the Leased Premises the sum of ONE HUNDRED SEVENTY NINE THOUSAND ONE HUNDRED NINETY NINE AND 96/100 DOLLARS (\$179,199.96) which shall be paid in equal monthly installments of FOURTEEN THOUSAND NINE HUNDRED THIRTY THREE AND 33/100 DOLLARS (\$14,933.33), due and payable on the first day of each month, in advance, without demand EXCEPT THAT NO RENT SHALL BE DUE DURING THE FIRST TWO (2) MONTHS OF OCCUPANCY. Said rent shall be paid to the Lessor, or to the duly authorized agent of the Lessor, at its office during business hours. If the commencement date of this Lease is other than the first day of the month, any rental adjustment or additional rents hereinafter provided for shall be prorated accordingly. The Lessee will pay the rent as herein provided, without deduction whatsoever, and without any obligation of the Lessor to make demand for it. Any installment of rent accruing hereunder and any other sum payable hereunder, if not paid when due, shall bear interest at the rate of eighteen

percent (18%) per annum until paid. The Basic Annual Rent of \$179,199.96 shall be adjusted annually based on any increases in the Consumer Price Index beginning one year after the commencement date of this Lease and at the end of each year thereafter, whether during the term of this Lease or any renewal or extension thereof. Increases in the Annual Rent shall be made in accordance with the following procedure:

a. The index to be used for this adjustment shall be the Consumer Price Index (NORTH CENTRAL REGION, All Urban Consumers, All Items, 1982-1984 equaling a base of 100, from the U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.).

b. The Consumer Price Index of 1991 for the month of June shall be the "Base Period Consumer Price Index." The Consumer Price Index for the month of June in each adjustment year shall be the "Adjustment Period Consumer Price Index."

c. The Base Period Consumer Price Index shall be subtracted from the Adjustment Period Consumer Price Index; the difference shall be divided by the Base Period Consumer Price Index. This quotient shall then be multiplied by the Basic Annual Rent, and the result shall then be added to the Basic Annual Rent. The resulting sum shall be the adjusted Annual Rent for such immediately succeeding leasehold period which shall be paid in equal monthly installments.

d. If the said Consumer Price Index is, at any time during the term of this Lease, discontinued by the Government, then the most nearly comparable index shall be substituted for the purpose of the aforesaid calculations.

Section 2. The Lessee shall reimburse the Lessor for the costs of water, gas, and electricity, including electricity costs for exterior lighting, or such other utilities and heating and air conditioning maintenance in the event that such services are furnished by Lessor and not separately metered to the Lessee. Said reimbursement shall be additional rent due on the first day of the calendar month next following rendition of a bill therefor. If any services are separately metered, the cost shall be paid directly by the Lessee to the utility service. The heating and other utilities, except water, not separately metered will be prorated on the basis of the square footage serviced by a given meter and paid to Lessor as billed. The total costs of water shall be paid by the Lessees currently in occupancy and the costs thereof shall be prorated on the basis of square footage occupied by each Lessee. ANY HEAVY USER OF ANY PRORATED UTILITY SHALL HAVE SUCH SERVICE SUBMETERED. LESSEE SHALL PAY FOR ELECTRICITY DIRECTLY TO THE UTILITY SERVICE; WATER AND GAS SHALL BE PRORATED AS DESCRIBED ABOVE. A 10% handling fee for these billable services will be charged by the Lessor.

Section 3. The Lessee agrees to pay any increased real estate taxes over and above the real estate taxes paid by the Lessor during the first year of the term of this Lease. The Lessee's proportionate share of any such increase shall be a fraction thereof, the numerator of which is the number of square feet of floor area in the Leased Premises and the denominator of which is the total square feet of the floor area in the building both as specified aforesaid in the Lease. Said amount shall be deemed to be additional rent and shall be due and payable on the first of the month following delivery to Lessee of a receipt for Lessor's payment of said real estate taxes. The Lessee shall pay its prorated share of expenses that the Lessor shall incur by reason of compliance with new laws, orders, special rent/use taxes, ordinances and new regulations of Federal, State, County and Municipal authorities, and with any lawful direction of any public officer or officers, which lawful direction shall be imposed upon the Lessor for the common good of the occupants of the building. LESSEE SHALL NOT BE CHARGED WITH ANY EXPENSES ATTRIBUTABLE TO LESSOR'S COMPLIANCE WITH NEW ENVIRONMENTAL STATUTES, ORDERS, ETC.

ARTICLE 5. COMMON AREA.

For the purpose of this Lease, common area shall be defined as all of the property described herein that is not actually occupied by the building. The Lessee shall have the use in common with other Lessees to the parking areas.

Section 4. Except as provided in Sections 1, 2, and 3 of this Article, Lessor shall not be obligated to make repairs, replacements or improvements of any kind upon said Leased Premises, or any equipment facilities or fixtures therein contained, which shall at all times be kept in good order, conditions and repair by Lessee, and in a clean, sanitary and safe condition and in accordance with all applicable laws, ordinances and regulations of any governmental authority having jurisdiction. Lessee shall permit no waste, damage, or injury to the Leased Premises.

Section 5. Lessee shall forthwith at its own cost and expense replace with glass of the same kind and quality any cracked or broken glass, including plate glass or glass or other breakable materials used in structural portions, and any interior and exterior windows and doors in the Leased Premises.

ARTICLE 8. INSTALLATIONS AND ALTERATIONS.

Section 1. Lessee shall not make any alterations or additions to the Leased Premises without first procuring Lessor's written consent and delivering to Lessor the plans and specifications and copies of the proposed contracts and necessary permits, and shall furnish indemnification against liens, costs, damages and expenses as may be reasonably required by Lessor. All alterations, additions, improvements and fixtures, other than trade fixtures, which may be made or installed by either of the parties hereto upon the Leased Premises and which in any manner are attached to the floors, walls or ceilings, at the termination of this Lease shall become the property of Lessor, unless Lessor requests their removal, and shall remain upon and be surrendered with the Leased Premises as a part thereof, without damage or injury; any linoleum or other floor covering of similar character which may be cemented or otherwise adhesively affixed to the floor shall likewise become the property of Lessor, all without compensation or credit to Lessee.

Section 2. The Lessee shall not erect or install any signage without first procuring Lessor's written consent.

Section 3. The Lessee shall have no rights to use and shall not use the roof of the Leased Premises for any purpose without the written consent of the Lessor. The Lessee shall not use the roof for storage, for any activity that will result in traffic on the roof, for anything that will penetrate the roof, use the roof as an anchor or otherwise damage the roof. The consent of the Lessor must be in writing for each specific use and must also approve the method of installation of the permitted use. Should the Lessee break this covenant, the Lessee shall be responsible for any damages caused to the roof or other parts of the building and shall assume the cost of maintaining and repairing the roof during the term of the Lease, including any renewals.

ARTICLE 9. INDEMNIFICATION.

Except to the extent of the negligence or misconduct of Lessor, Lessee agrees to indemnify and hold Lessor harmless against and from any and all claims, damages, costs, and expenses, including reasonable attorney's fees, arising out of Lessee's use or occupancy of the Leased Premises. Except to the extent of Lessee's negligence or misconduct, Lessor agrees to indemnify and hold Lessee harmless against and from any and all claims, damages, costs, and expenses, including reasonable attorney's fees, arising out of Lessor's failure to perform its duties and obligations as owner or agent of the owner of the property of which the Leased Premises is a part.

ARTICLE 10. INSURANCE.

Section 1. Lessee shall not carry any stock of goods or do anything in or about said Leased Premises which will in any way tend to increase insurance rates on said Leased Premises or the building in which the same are located. If Lessor shall consent to such use, Lessee agrees to reimburse Lessor on a pro rata basis for any increase in premiums for insurance against loss by fire or extended coverage risks resulting from the business carried on in the Leased Premises by Lessee. If Lessee installs any electrical equipment that overloads the power lines to the building, Lessee shall at its

own expense make whatever changes are necessary to comply with the requirements of insurance underwriters and insurance rating bureaus and governmental authorities having jurisdiction.

Section 2. Lessee agrees to procure and maintain a policy or policies of insurance, at its own costs and expense, insuring from all claims, demands or actions for injury to or death of more than one person in any one accident and for damages to property in any aggregate amount of not less than \$1,000,000.00 made by or on behalf of any person or persons, firm or corporation, arising from, related to, or connected with the conduct and operation of Lessee's business in the Leased Premises. Lessor shall be named an Additional Insured Party in said policy. Such insurance shall be primary relative to any other valid and collectible insurance. Said insurance shall not be subject to cancellation except after at least thirty (30) days prior written notice to Lessor, and the policy or policies, or duly executed certificate or certificates for the same, together with satisfactory evidence of the payment of the premium thereon, shall be deposited with Lessor at the commencement of the term and renewals of such coverage. If Lessee fails to comply with such requirement, Lessor may obtain such insurance and keep the same in effect, and Lessee shall pay Lessor the premium cost thereof upon demand.

Section 3. All property which may be upon said Leased Premises during the term hereof or any renewal thereof shall be at any upon the sole risk and responsibility of Lessee.

ARTICLE 11. DAMAGE BY FIRE OR OTHER CASUALTY.

Section 1. IF THE LEASED PREMISES SHALL BE DESTROYED OR SO INJURING BY ANY CAUSE AS TO BE UNFIT, IN WHOLE OR IN PART, FOR OCCUPANCY, LESSOR SHALL USE ITS BEST EFFORTS TO PROVIDE OCCUPANCY IN COMPARABLE SPACE WITHIN SIXTY (60) MILES OF THE LEASED PREMISES AND IF LESSOR CANNOT PROVIDE SUCH SPACE, LESSEE MAY TERMINATE THIS LEASE. IF THE LESSOR HAS PROVIDED SUCH TEMPORARY SPACE and such destruction or injury could reasonably be repaired within three (3) months from the happening of such destruction or injury, then Lessee shall not be entitled to surrender possession of the Leased Premises nor shall Lessee's liability to pay rent under this Lease cease without mutual consent of the parties hereto, but in case of any such destruction or injury Lessor shall repair the same with all reasonable speed and shall complete such repairs within three (3) months from the happening of such injury, and if during such period Lessee shall be unable to use all or any portion of the Leased Premises, a proportionate allowance shall be made to Lessee from the rent corresponding to the time during which and to the portion of the Leased premises of which Lessee shall be so deprived of the use on account thereof.

Section 2. If such destruction or injury cannot reasonably be repaired within three (3) months from the happening thereof, Lessor shall notify Lessee within ten (10) days after the happening of such destruction or injury whether or not Lessor will repair or rebuild. If Lessor elects not to repair or rebuild, this Lease shall be terminated. If Lessor shall elect to repair or rebuild, Lessor shall specify the time within which such repairs or reconstruction will be complete, and Lessee shall have the option, within ten (10) days after the receipt of such notice, to elect either to terminate this Lease and further liability hereunder, or to extend the term of the Lease by a period of time equivalent to the time from the happening of such destruction or injury until the Leased Premises are restored to their former condition. In the event Lessee elects to extend the term of the Lease, Lessor shall restore the Leased Premises to their former condition within the specified time in the notice and Lessee shall not be liable to pay rent for the period from the time of such destruction or injury until the Leased Premises are so restored to their former condition.

ARTICLE 12. EMINENT DOMAIN.

Section 1. If the whole or substantially all of the Leased Premises hereby leased shall be taken by a public authority under the power of eminent domain, then the term of this Lease shall cease as of the day

possession shall be taken by such public authority, and the rent shall be paid up to that date with a proportionate refund by Lessor of such rent as shall have been paid in advance.

Section 2. If less than substantially all of the floor area of the Leased Premises shall be so taken, the term of this Lease shall cease only on the parts so taken as of the day possession shall be taken by such public authority, and the rent shall be paid up to that day with a proportionate refund by Lessor of such rent as may have been paid in advance, and thereafter the minimum rent shall be equitably abated, and Lessor shall at its own cost and expense make all necessary repairs or alterations as to constitute the remaining Leased Premises a complete architectural unit.

Section 3. All damages awarded for such taking under the power of eminent domain, whether for the whole or a part of the Leased Premises, shall be the property of Lessor whether such damages shall be awarded as compensation for diminution in value of the leasehold or to the fee of the Leased Premises; provided, however, that the Lessor shall not be entitled to any separate award made to Lessee for loss of business, depreciation to and cost of removal of stock and fixtures.

ARTICLE 13. ASSIGNMENT OR SUBLETTING.

Section 1. Lessee shall not assign or in any manner transfer this Lease or any interest therein, nor sublet said Leased Premises or any part or parts thereof, nor permit occupancy by anyone with, through, or under it, without the previous written consent of Lessor which consent shall not be unreasonably withheld. Consent by Lessor to one or more assignments of this Lease or to one or more sublettings of the Leased Premises shall not operate as a waiver of Lessor's rights under this Article to any subsequent assignment or subletting. No assignment shall release Lessee of any of its obligations under this Lease or be construed or taken as a waiver of any of Lessor's rights or remedies hereunder.

Section 2. Neither this Lease nor any interest therein, nor any estate thereby created, shall pass to any trustee or receiver in bankruptcy or any assignee for the benefit of creditors or by operation of law.

Section 3. Provided that the Lessee with Lessor's consent assigns or sublets part or all of the Leased Premises at a rental that exceeds the current rental herein reserved, the Lessor shall be entitled to receive as additional rental one-half of such excess of the current rental. The Lessee shall remit one-half of such excess within five (5) days after receipt by it.

ARTICLE 14. ACCESS TO LEASED PREMISES.

The Lessor shall retain duplicate keys to all of the doors of the Leased Premises. The Lessor or its agents shall have the right to enter upon the Leased Premises at all reasonable hours for the purpose of inspecting the same or of making repairs, additions or alterations thereto or to the building in which the same are located. The Lessor shall have the right, upon reasonable notice, to show the Leased Premises to prospective Lessees, purchasers or others. Lessor shall not be liable to Lessee in any manner for any expense, loss or damage by reason thereof, nor shall the exercise of such right be deemed an eviction or disturbance of Lessee's use or possession. LESSOR SHALL PROVIDE LESSEE WITH A LIST OF ALL PERSONNEL WHO WILL HAVE ACCESS TO DUPLICATE KEYS AND TO THE PREMISES. ONLY THOSE PREAPPROVED LESSOR PERSONNEL MAY ENTER THE PREMISES.

ARTICLE 15. ATTORNMENT.

In the event the herein Leased Premises are sold due to any foreclosure sale or sales, by virtue of judicial proceedings or otherwise, this Lease shall continue in full force and effect, and Lessee agrees, upon request, to attorn to and acknowledge the foreclosure purchaser or purchasers at such sale as Lessors hereunder; provided such purchaser will recognize this Lease, unless and until it is in default.

ARTICLE 16. LIMITATION UPON LIABILITY.

Notwithstanding any other provision of this Lease, Lessee agrees to look solely to Lessor's interest in the Building (subject to any mortgage on the Building) for the recovery of any judgment requiring the payment of money by Lessor; it being agreed that Lessor, and if Lessor is a partnership, its partners whether general or limited, or if Lessor is a corporation, its directors, officers, or shareholders, shall never be personally liable for any such judgment, and no other assets of the Lessor shall be subject to levy, execution or other procedures for the satisfaction of Lessee's judgment. The provision contained in the foregoing sentence is not intended to, and shall not, limit any right that Lessee might otherwise have to obtain injunctive relief against Lessor or Lessor's successors in interest, or to maintain any other action not involving the personal liability of Lessor, or to maintain any suit or action in connection with enforcement or collection of amounts which may become owing or payable under or on account of insurance maintained by Lessor.

ARTICLE 17. LESSOR'S SUCCESSORS.

The term "Lessor" as used in this Lease shall be limited to mean and include only the owner or owners, at the time, of the fee of the Building, their successors and assigns, so that in the event of any sale or sales of the Building, the previous Lessor shall be entirely released with respect to the performance of all subsequently accruing covenants and obligations on the part of Lessor. The retention of fee ownership by a lessor of the Building or of the land on which it is located under an underlying lease which is now or hereafter in effect, shall not be deemed to impose on such underlying lessor any liability, initial or continuing, for the performance of the covenants and obligations of Lessor.

ARTICLE 18. LESSEE'S DEFAULT.

Section 1. The Lessee, ten (10) days after receipt of written notice shall be considered in default of this Lease upon failure to pay when due the rent or any other sum required by the terms of the Lease; failure to perform any term, covenant or condition of this Lease; the commencement of any action or proceeding for the dissolution, liquidation or reorganization under the Bankruptcy Act, of Lessee, or for the appointment of a receiver or trustee of the Lessee's property; the making of any assignment for the benefit of creditors by Lessee; the suspension of business; or the abandonment of the Leased Premises by the Lessee. ANY DEFAULTS OTHER THAN NONPAYMENT DEFAULTS SHALL HAVE A THIRTY (30) DAY CURE PERIOD.

Section 2. In the event of default of this Lease by Lessee, than Lessor MAY PURSUE ANY AND ALL REMEDIES AND RIGHTS AVAILABLE TO THE LESSOR UNDER APPLICABLE OHIO LAW. Should Lessor elect to reenter or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease, or it may without terminating this Lease relet said Leased Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Lessor may deem advisable, with the right to make alterations and repairs to said Leased Premises for the purpose of re rental. Should such rentals received from such reletting during any month be less than required to be paid by Lessee as defined above, then Lessee shall immediately pay such deficiency to Lessor. Should Lessor at any time terminate this Lease for any breach or act of default, in addition to any other remedy it may have, it may recover from Lessee all damages it may incur by reason of such breach or act of default.

ARTICLE 19. SURRENDER OF LEASED PREMISES.

Section 1. If Lessee holds possession of the Leased Premises after the termination of this Lease for any reason, Lessee shall pay Lessor double the rent provided for herein for such period that Lessee holds over, but such payment of rent shall not create any Lease arrangement whatsoever between Lessor and Lessee, unless expressly agreed to in writing by Lessor. It is further understood that during such period that Lessee holds over, the Lessor retains all of Lessor's rights under this Lease, including damages as a result

of the termination of this Lease and the right to immediate possession of the Leased Premises. This paragraph shall not be construed to grant Lessee permission to hold over.

Section 2. At the expiration of the tenancy created hereunder, whether by lapse of time or otherwise, Lessee shall surrender the Leased Premises broom clean, free of all debris and in good condition and repair, reasonable wear and loss by fire or other unavoidable casualty excepted.

Section 3. Prior to surrender of the Leased Premises, the Leased Premises will be reviewed by a representative of the Lessor and Lessee to determine if there is any deferred maintenance or unrepaired damage. In the event that there is deferred maintenance and/or unrepaired damage, Lessor may effect such maintenance and repairs, and Lessee will pay the cost thereof.

Section 4. Upon the expiration of the tenancy hereby created, if Lessor so requests in writing, Lessee shall promptly remove any additions, fixtures and installations placed in the Leased Premises by Lessee that is designated in said request, and repair any damage occasioned by such removals at its own expense, and in default thereof, Lessor may effect such removals and repairs, and Lessee shall pay Lessor the cost thereof, with interest at the rate of eight (8) percent per annum from the date of the payment by Lessor.

ARTICLE 20. SUBORDINATION.

This Lease shall be subject to and subordinate at all times to the lien of any mortgages, now or hereafter made on the Leased Premises, and to all advances made or hereafter to be made thereunder. The Lessee agrees to execute a subordination agreement should Lessor's lender request same.

ARTICLE 21. NOTICE

All notices under this Lease may be personally delivered or mailed to the address shown by certified mail.

Lessor: Miller-Valentine Partners
Mail: P.O. Box 744
Dayton, Ohio 45401-0744

Lessee: Micro Warehouse, Inc.
Mail: ATTN: Mr. Peter Godfrey, President
29 Haviland Street
South Norwalk, Connecticut 06854

cc: Lev, Spalter, Berlin & Certilman, P.C.
ATTN: Mr. Bruce L. Lev
105 Rowayton Avenue
P.O. Box 5318
Rowayton, Connecticut 06853

Either party may from time to time designate in writing other addresses.

ARTICLE 22. WAIVER OF SUBROGATION.

The Lessor and Lessee waive all rights, each against the other, for damages caused by fire or other perils covered by insurance where such damages are sustained in connection with the occupancy of the Leased Premises.

ARTICLE 23. ESTOPPEL CERTIFICATE.

The Lessee agrees to execute an Estoppel Certificate within ten (10) days of receipt of a written request by Lessor for the benefit of any purchaser and/or prospective Lender designated by Lessor as well as Lessor's present Lender; that wherein the Lessee acknowledges the terms and conditions of this Lease.

ARTICLE 24. RENT DEMAND.

Every demand for rent due wherever and whenever made shall have the same effect as if made at the time it falls due and at the place of payment, and after the service of any notice or commencement of any suit, or final judgment therein, Lessor may receive and collect any rent due, and such collection or receipt shall not operate as a waiver of nor affect such notice, suit or judgment.

ARTICLE 25. NO REPRESENTATION BY LESSOR.

Lessor and its agent have made no representations or promises with respect to the Leased Premises or the building of which the same form a part except as herein expressly set forth. LESSOR REPRESENTS THAT ALL SYSTEMS AND DEMISED PREMISES WILL BE IN GOOD WORKING ORDER AND IN FULL COMPLIANCE WITH LAW AND THE PROVISIONS OF THE CERTIFICATE OF OCCUPANCY UPON COMMENCEMENT OF THE LEASE.

ARTICLE 26. WAIVER OF BREACH.

No waiver of any breach of the covenants, provisions or conditions contained in this Lease shall be construed as a waiver of the covenant itself or any subsequent breach itself, and if any breach shall occur and afterwards be compromised, settled or adjusted, this Lease shall continue in full force and effect as if no breach had occurred, unless otherwise agreed. The acceptance of rent hereunder shall neither be or construed to be a waiver of any breach of any term, covenant or condition of this Lease.

ARTICLE 27. QUIET ENJOYMENT.

Lessor hereby covenants and agrees that if Lessee shall perform all the covenants and agreements herein stipulated to be performed on Lessee's part, Lessee shall at all times during the continuance hereof have the peaceable and quiet enjoyment and possession of the Leased Premises without any manner of let or hindrance from Lessor or any person or persons lawfully claiming the Leased Premises except as otherwise provided for herein.

ARTICLE 28. ENVIRONMENTAL PROVISIONS.

Section 1. The Lessor, to the best of its knowledge, represents to the Lessee that no toxic, explosive or other dangerous materials or hazardous substances have been concealed within, buried beneath, released on or from, or removed from and stored off-site of the Property upon which the Leased Premises is constructed.

Section 2. Lessee shall at all times during the term of this Lease comply with all applicable federal, state, and local laws, regulations, administrative rulings, orders, ordinances, and the like, pertaining to the protection of the environment, including but not limited to, those regulating the handling and disposal of waste materials. Further, during the term of this Lease, neither Lessee nor any agent or party acting at the direction or with the consent of Lessee shall treat, store, or dispose of any "hazardous substance," as defined in Section 101 (14) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), or petroleum (including crude oil or any fraction thereof) on or from the Property.

Section 3. Lessee shall fully and promptly pay, perform, discharge, defend, indemnify and hold harmless Lessor from any and all claims, orders, demands, causes of action, proceedings, judgments, or suits and all liabilities, losses, costs or expenses (including, without limitation, technical consultant fees, court costs, expenses paid to third parties and reasonable legal fees) and damages arising out of, or as a result of, (i) any "release" as defined in Section 101 (22) of CERCLA, of any "hazardous substance," as defined in Section 101 (14) of CERCLA, or petroleum, (including crude oil or any fraction thereof) or placed into, on or from the Property at any time after the date of this Lease by Lessee, its agents, or employees; (ii) any contamination of the Property's soil or groundwater or damage to the environment and natural resources of the Property the result of actions occurring after the date of this Lease, whether arising under CERCLA or other

statutes and regulations, or common law by Lessee, its agents, or employees; and (iii) any toxic, explosive or otherwise dangerous materials or hazardous substances which have been buried beneath, concealed within or released on or from the Property after the date of this Lease by Lessee, its agents, or employees. LESSOR INDEMNIFIES THE LESSEE FROM ANY OF THE CLAIMS OUTLINED ABOVE ATTRIBUTABLE TO ACTS AND CIRCUMSTANCES PRIOR TO THE DATE OF LESSEE'S OCCUPANCY OR SUBSEQUENT TO LESSEE'S OCCUPANCY IF NOT SPECIFICALLY ATTRIBUTABLE TO THE CONDUCT OF THE LESSEE, ITS AGENTS OR EMPLOYEES.

ARTICLES 29. INTERPRETATION.

Section 1. Wherever either the word "Lessor" or "Lessee" is used in the Lease, it shall be considered as meaning the singular and/or neuter pronouns as used herein, and the same shall be construed as including all persons and corporations designated respectively as Lessor or Lessee in the heading of this instrument wherever the context requires.

Section 2. If any clause, sentence, paragraph, or part of this Lease shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not effect, impair, or invalidate the remainder of this Lease, but be confined in its operation to the clause, sentence, paragraphs, or part thereof directly involved in the controversy in which such judgment shall have been rendered, and in all other respects said Lease shall continue in full force and effect.

ARTICLE 30. FINANCIAL STATEMENTS.

At Lessor's request, AND BECAUSE OF MORTGAGING REQUIREMENTS, the Lessee, within thirty (30) days of Lessor's request, shall furnish the Lessor with Lessee's most current financial statements including the Lessee's balance sheet, a consolidated statement of earnings and retained earnings, and changes in Lessee's financial position for such year. All such statements shall be certified by an independent certified public accountant. All such financial statements shall be prepared in accordance with generally accepted accounting principles which shall be consistently applied. ALL SUCH FINANCIAL STATEMENTS SHALL BE DELIVERED TO THE LENDER ON A FULLY CONFIDENTIAL BASIS.

ARTICLE 31. MEMORANDUM OF LEASE.

It is agreed by both parties that this instrument is not recordable and if either party should record the same in the Office of the Recorder of Clinton County, Ohio, the recording shall have no effect. When possession of the Leased Premises has been delivered to Lessee, the parties hereto may execute, acknowledge and deliver a Memorandum of Lease in recordable form specifying the terms of this Lease and renewal periods of this Lease. In the event they differ from the dates herein, the date in the Memorandum shall control.

ARTICLE 32. OPTION TO RENEW.

Lessee is hereby granted an option to renew this Lease for an additional term of five (5) years on the same terms and conditions contained herein except for the rental and the length of the term, upon the conditions that:

a. written notice of the exercise of such option shall be given by Lessee to Lessor not less than one hundred eighty (180) days prior to the end of the term of this Lease; and

b. at the time of the giving of such notice and at the expiration of the term of this Lease, there are no defaults in the covenants, agreements, terms and conditions on the part of Lessee to be kept and performed, and all rents are and have been fully paid. Provided also, that the rent to be paid during each year of the said renewal period shall be as determined in accordance with the following procedure:

(1) The index to be used for this adjustment shall be the Consumer Price Index (NORTH CENTRAL REGION, All Urban Consumers, All Items, 1982-1984 equaling a base of 100, from the U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.).

(2) The Consumer Price Index of 1991 for the month of June shall be the "Base Period Consumer Price Index."

(3) The Consumer Price Index for the month of June each succeeding year shall be determined from the published figures and shall be the "Adjustment Period Consumer Price Index."

(4) The Base Period Consumer Price Index shall be subtracted from the Adjustment Period Consumer Price Index; the difference shall be divided by the Base Period Consumer Price Index. This quotient shall then be multiplied by \$179,199.96 and the result shall then be added to \$179,199.96. This arithmetical sum shall then be the adjusted Basic Annual Rent for such immediately succeeding leasehold year which shall be paid in equal monthly payments.

(5) If the said Consumer Price Index is, at any time during the term of this lease, discontinued by the Government, then the most nearly comparable index shall be substituted for the purpose of the aforesaid calculations.

ARTICLE 33. RIGHT OF FIRST OFFERING ON CURRENTLY OCCUPIED SPACE.

IF CURRENTLY OCCUPIED SPACE ADJACENT OR ADJOINING LESSEE'S LEASED PREMISES (19,200 SQUARE FEET AT 2895, 2901 AND 2907 OLD STATE ROUTE 73) BECOMES AVAILABLE DURING THIS LEASE TERM OR OPTIONS HEREOF, LESSOR SHALL NOTIFY LESSEE OF ITS AVAILABILITY IN WRITING AND LESSEE SHALL HAVE FIFTEEN (15) BUSINESS DAYS FROM THE DATE OF LESSOR'S NOTICE TO LESSEE TO ADVISE LESSOR IN WRITING THAT LESSEE ACCEPTS SUCH SPACE OFFERED IN ITS PRESENT CONDITION AND AGREES THAT IT SHALL BECOME A PART OF THE LEASED PREMISES. THE BASE RENT FOR THE SPACE OFFERED AND THE APPROXIMATE DATE POSSESSION IS TO BE DELIVERED SHALL BE INCLUDED IN LESSOR'S NOTICE TO LESSEE. SHOULD LESSEE NOT ACCEPT THE OFFERING, THEN THE PROVISIONS OF THIS PARAGRAPH SHALL BE VOID.

ARTICLE 34. RIGHT TO ASSIGN.

LESSOR SHALL GRANT TO LESSEE A UNILATERAL RIGHT TO ASSIGN THIS LEASE TO ABX AIR, INC.

ARTICLE 35. ENTIRE AGREEMENT

This Lease contains the entire agreement between the parties; it supersedes all previous understandings and agreements between the parties, if any, and no oral or implied representation or understandings shall vary its terms; and it may not be amended except by a written instrument executed by both parties hereto.

IN WITNESS WHEREOF, the parties hereto set their hands to triplicates hereof, this 20th day of August, 1991, as to Lessor, and this 12th day of August, 1991, as to Lessee.

Signed and acknowledged LESSOR: MILLER-VALENTINE PARTNERS
in the presence of:

/s/ [Illegible] By: /s/ James M. Miller

James M. Miller
/s/ [Illegible] Its: Senior Partner

LESSEE: MICRO WAREHOUSE, INC.
/s/ [Illegible] By: /s/ [Illegible]

/s/ [Illegible] Its: President

STATE OF OHIO, COUNTY OF MONTGOMERY, SS:

The foregoing instrument was acknowledged before me this 20th day of August, 1991, by James M. Miller, Senior Partner on behalf of MILLER-VALENTINE PARTNERS, an Ohio general partnership.

/s/ Shirley J. Kidd

Notary Public

[SEAL]

SHIRLEY J. KIDD, NOTARY PUBLIC
IN AND FOR THE STATE OF OHIO
MY COMMISSION EXPIRES AUGUST 24, 1992

STATE OF CONNECTICUT, COUNTY OF FAIRFIELD, SS; NORWALK

The foregoing instrument was acknowledged before me this 12th day of August, 1991, by Peter Godfrey, the President of MICRO WAREHOUSE, INC., a corporation, on behalf of said corporation.

/s/ [Illegible]

Notary Public

EXHIBIT A

Outline Specification

June 25, 1991

Prepared For

MICRO WAREHOUSE, INC.

Area: 51,200 Square Feet (360'x160') See Exhibit B

Clear Height: 19' under bar joist.

Type of Construction: Tilt-up concrete and steel.

Doors: 8 dock-high doors (8'x9') with levelers per bay and one drive-in door (12'x14')

1 decorative glass office entry door with side lite

Additional manddoors and steps as required by fire code

Insulation: .1 U factor both roof and walls

Sprinkler: Wet pipe system to meet requirements of Insurance Services of Ohio

Electrical Entrance Service: 400 amp. 220/480 V, 3 Phase

Lighting: 20 foot candles measured at three feet off the floor

Heating: Gas fired unit heaters designed to maintain 60 degrees inside at 0 degrees outside

Restrooms: One set of restrooms designed to meet the code requirements for Micro Warehouse's operation. To include drinking fountain and janitor sink.

Office: Office space will be specifically designed to meet your requirements. Costs are not included in the base lease rate.

Additional Features: Entire structure painted inside and out, 6" floor slabs, quality landscaping, and plenty of parking spaces.

The above specifications reflect the "base standard" for warehouse/distribution. Any item may be upgraded at Lessee's expense to meet individual requirements.

=====

AMENDED AND RESTATED

CREDIT AGREEMENT

Dated as of February 25, 2000

Among

PC CONNECTION, INC.,
as Borrower,

THE LENDERS PARTY HERETO,

and

CITIZENS BANK OF MASSACHUSETTS,
as Agent for the Lenders

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AMENDED AND RESTATED
CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT is entered into as of February 25, 2000 by and among PC CONNECTION, INC. (fka PC Holdco, Inc.) ("Borrower"), a Delaware corporation, the lenders from time to time party hereto, and CITIZENS BANK OF MASSACHUSETTS (the "Agent"), as agent for the lenders from time to time party hereto.

RECITALS

WHEREAS, PC CONNECTION SALES CORP. (fka PC Connection, Inc.) ("Sales), a Delaware corporation and wholly-owned subsidiary of Borrower, is the borrower under that certain Credit Agreement dated as of May 29, 1999 (the "May 99 Credit Agreement"), by and among Sales, the lenders from time to time party thereto, and Citizens Bank of Massachusetts, as successor in interest to State Street Bank and Trust Company, as agent;

WHEREAS, pursuant to a corporate reorganization (the "Corporate Restructuring") consummated on or about December 31, 1999, (i) Sales formed Borrower as its subsidiary, (ii) Sales merged into a transitory subsidiary formed by Borrower which resulted in Sales being a wholly-owned subsidiary of Borrower, (iii) Sales formed two-wholly owned subsidiaries, PC Connection Sales of Massachusetts, Inc. ("Sales-MA"), a Delaware corporation, and Merrimack Services Corp. ("Merrimack"), a Delaware corporation, and contributed certain assets to such entities, and (iv) Sales then distributed its stock in Merrimack and Comteq Federal, Inc. ("Comteq"), a Maryland corporation;

WHEREAS, Borrower desires to succeed Sales as Borrower under the May 99 Credit Agreement to support Borrower's ongoing working capital requirements as well as potential acquisitions and the Lenders (as hereinafter defined) have agreed to such succession subject to the terms and conditions set forth herein;

WHEREAS, to induce Lenders and the Agent to enter into and make advances under this Agreement, Sales, Sales-MA, Comteq and Merrimack (Sales, Sales-MA, Comteq and Merrimack each a "Guarantor" and collectively the "Guarantors") have entered into a Guaranty Agreement dated as of even date herewith, for the benefit of the Lenders, guaranteeing the obligations of Borrower arising under this Agreement and the Lender Agreements.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto enter into this Amended and Restate Credit Agreement and do hereby agree as follows:

ARTICLE 1. DEFINITIONS AND ACCOUNTING TERMS

Section 1.1. Definitions. In addition to the terms defined elsewhere in this Agreement, unless otherwise specifically provided herein, the following terms shall have the following meanings for all purposes when used in this Agreement, and in any note, agreement, certificate, report or other document made or delivered in connection with this Agreement:

"Advance or Advances" shall mean any loan or advance, including Letter of Credit Outstandings, from any Lender to the Borrower under the Revolving Credit Facility pursuant to Section 2.1 of this Agreement.

"Additional Guarantor" shall have the meaning set forth in Section 9.11 hereof.

"Affiliate" shall mean (a) any director or officer of the Borrower and (b) any Person that controls, is controlled by or is under common control with the Borrower. For purposes of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"Agent" shall mean Citizens Bank of Massachusetts, in its capacity as agent for the Lenders, and its successors in that capacity.

"Agreement" shall mean this Credit Agreement, as amended or supplemented from time to time. References to Articles, Sections, Exhibits, Schedules and the like refer to the Articles, Sections, Exhibits, Schedules and the like of this Agreement unless otherwise indicated, as amended and supplemented from time to time.

"Applicable Prime Rate" shall mean the sum of (i) the Prime Rate as is in effect from time to time plus (ii) the Prime Rate Margin determined in accordance with the Pricing Schedule.

"Applicable LIBOR Rate" shall mean the sum of (i) the LIBOR Rate plus (ii) the LIBOR Rate Margin determined in accordance with the Pricing Schedule.

"Assignment and Acceptance Agreement" shall have the meaning set forth in Section 12.2(a) hereof.

"Borrower" shall mean PC Connection, Inc. (fka PC HoldCo, Inc.) a Delaware corporation.

"Business Day" shall mean (i) for all purposes other than as covered by clause (ii) below, any day other than a Saturday, Sunday or legal holiday on which banks in Boston, Massachusetts and Manchester, New Hampshire are open for the conduct of a substantial part of their commercial banking business, and (ii) with respect to all notices and determinations in connection with, and payments of principal and interest on, LIBOR

Rate Loans any day that is a Business Day described in clause (i) and that is also a day for trading by and between banks in U.S. Dollar deposits in the London interbank Eurodollar market.

"Capitalized Lease" shall mean any lease which is or should be capitalized on the balance sheet of the lessee in accordance with generally accepted accounting principles and Statement of Financial Accounting Standards No. 13.

"Capitalized Lease Obligations" shall mean the amount of the liability reflecting the aggregate discounted amount of future payments under all Capitalized Leases calculated in accordance with generally accepted accounting principles and Statement of Financial Accounting Standards No. 13.

"Closing Date" shall mean the date on which all of the conditions set forth in Section 3.1 have been satisfied.

"Commitment Amount" shall mean each Lender's Commitment Percentage multiplied by the Maximum Credit Amount.

"Commitment Fee" shall have the meaning set forth in Section 2.7(b).

"Commitment Percentage" shall mean as to each Lender its percentage interest in the Maximum Credit Amount as set forth on Schedule 1 hereto.

"Compliance Certificate" shall mean a certificate in the form of Exhibit D hereto and executed by the chief executive officer or chief financial officer of the Borrower.

"Consolidated" and "Consolidating," and "consolidated" and "consolidating" when used with reference to any term, mean that term (or the terms "combined" and "combining", as the case may be, in the case of partnerships, joint ventures and Affiliates that are not Subsidiaries) as applied to the accounts of the Borrower (or other specified Person) and all of its Subsidiaries (or other specified Persons), or such of its Subsidiaries as may be specified, consolidated (or combined) in accordance with generally accepted accounting principles and with appropriate deductions for minority interests in Subsidiaries, as required by generally accepted accounting principles.

"Consolidated Current Liabilities" shall mean, at any date as of which the amount thereof shall be determined, all liabilities of the Borrower and its Subsidiaries which should properly be classified as current in accordance with generally accepted accounting principles consistently applied, including, without limitation, all fixed prepayments of, and sinking fund payments with respect to, Indebtedness and all estimated taxes of the Borrower and its Subsidiaries required to be made within one year from the date of determination, including all Indebtedness of the Borrower hereunder.

"Consolidated EBIT" shall mean for any period the sum of (a) Consolidated Net Income and (b) all amounts deducted in computing Consolidated Net Income in respect of (i) interest expense on Indebtedness and (ii) taxes based on or measured by income, in each case for the period under review.

"Consolidated EBITDA" shall mean the sum of (a) Consolidated EBIT, plus (b) the aggregate amount of consolidated depreciation and amortization expense plus (c) non-cash extraordinary or non-recurring losses less (d) extraordinary or non-recurring gains.

"Consolidated Net Income" shall mean the net income (or deficit) from operations of the Borrower and its Subsidiaries, after taxes, determined in accordance with generally accepted accounting principles consistently applied.

"Consolidated Net Worth" shall mean, at any date as of which the amount thereof shall be determined, the consolidated total assets of the Borrower and its Subsidiaries, less the consolidated total liabilities of the Borrower and its Subsidiaries.

"Consolidated Senior Debt" shall mean all Indebtedness of the Borrower and its Subsidiaries (including, without limitation, Capitalized Lease Obligations) for borrowed money (excluding Subordinated Indebtedness).

"Credit Termination Date" shall mean May 31, 2002.

"Credit Participants" shall have the meaning set forth in Section 12.3 hereof.

"Default" shall mean an Event of Default or an event or condition which with the passage of time or giving of notice, or both, would become such an Event of Default.

"Default Rate" shall mean the interest rate otherwise in effect plus three percent (3%) effective immediately in the event of an Event of Default under Section 10.1(a) hereof and within thirty (30) days notice from the Agent for any other Event of Default.

"Distribution" shall mean as to any Person: (a) the declaration or payment of any dividend on or in respect of any shares of any class of capital stock of such Person, other than dividends payable solely in shares of common stock of such Person, (b) the purchase, redemption, or other acquisition or retirement of any shares of any class of capital stock of such Person directly or indirectly, (c) any other distribution on or in respect of any shares of any class of capital stock of such Person, (d) any setting apart or allocating any sum for the payment of any dividend or distribution, or for the purchase, redemption or retirement of any shares of capital stock of such Person and (e) any payment of, principal of, interest on, or fees or any other amounts with respect to Subordinated Indebtedness.

"Environmental Law" means any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, or any federal, state, county or local statute, regulation, ordinance, order or decree relating to public health, welfare, the environment, or to the storage, handling, use or generation of hazardous substances in or at the workplace, worker health or safety, whether now existing or hereafter enacted.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Event of Default" shall have the meaning set forth in Section 10.1 hereof.

"Facility Fee" shall have the meaning set forth in Section 2.7(a) hereof.

"Facing Fee" shall have the meaning set forth in Section 2.7(d) hereof.

"Generally accepted accounting principles" shall mean generally accepted accounting principles as defined by controlling pronouncements of the Financial Accounting Standards Board, as from time to time supplemented and amended.

"Guarantor" and "Guarantors" shall have the meaning set forth in the preamble hereof.

"Guaranty Agreement" shall mean the Guaranty dated as of even date herewith from the Guarantors in favor of Agent and the Lenders in form and substance satisfactory to Agent and the Lenders.

"Guaranty" or "Guarantee" or "Guaranties" shall include any arrangement whereby a Person is or becomes liable in respect of any Indebtedness or other obligation of another and any other arrangement whereby credit is extended to another obligor on the basis of any promise of a guarantor, whether that promise is expressed in terms of an obligation to pay the Indebtedness of such obligor, or to purchase or lease assets under circumstances that would enable such obligor to discharge one or more of its obligations, or to maintain the capital, the working capital, solvency or general financial condition of such obligor, whether or not such arrangement is listed in the balance sheet of the guarantor or referred to in a footnote thereto.

"Indebtedness" shall mean, as to any Person, all obligations, contingent and otherwise, which in accordance with generally accepted accounting principles consistently applied should be classified upon such Person's balance sheet as liabilities, but in any event including liabilities secured by any mortgage, pledge, security interest, lien, charge or other encumbrance existing on property owned or acquired by such Person whether or not the liability secured thereby shall have been assumed, letters of credit open for account, obligations under acceptance facilities, Capitalized Lease Obligations and all obligations on account of Guaranties, endorsements and any other contingent obligations

in respect of the Indebtedness of others whether or not reflected on such balance sheet or in a footnote thereto.

"Interest Period" shall mean with respect to each LIBOR Rate Loan, the period commencing on the date of such LIBOR Rate Loan and ending one, two, three, four or six months (if available), as the Borrower may request as provided in Section 2.4 hereof, provided, that:

(a) any Interest Period (other than an Interest Period determined pursuant to clause (c) below) that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in the next calendar month, in which case such Interest Period shall end on the immediately preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c) below, end on the last Business Day of a calendar month;

(c) any Interest Period in connection with an Advance that would otherwise end after the Credit Termination Date shall end on the Credit Termination Date; and

(d) notwithstanding clause (c) above, no Interest Period shall have a duration of less than one month, and if any Interest Period applicable to any LIBOR Rate Loan would be for a shorter period, such Interest Period shall not be available hereunder.

"Internal Revenue Code" shall mean the Internal Revenue Code of 1986 as amended from time to time.

"Investment" shall mean (a) any stock, evidence of Indebtedness or other security of another Person, (b) any loan, advance, contribution to capital, extension of credit (except for current trade and customer accounts receivable for inventory sold or services rendered in the ordinary course of business and payable in accordance with customary trade terms) to another Person, and (c) any purchase of (i) stock or other securities of another Person or (ii) any business or undertaking of another Person (whether by purchase of assets or securities), any commitment or option to make any such purchase if, in the case of an option, the aggregate consideration paid for such option was in excess of \$100, or (d) any other investment, in all cases whether existing on the date of this Agreement or thereafter made.

"Issuing Lender" shall mean a Lender issuing to Borrower a letter of credit pursuant to Section 2.14 hereof.

"L/C Supportable Obligations" shall have the meaning set forth in Section 2.14 hereof.

"Lender Agreements" shall mean this Agreement, the LMCS Agreement, the Notes, the Guaranty Agreement and any other present or future agreement from time to time entered into between the Borrower or any Subsidiary and the Agent or the Lenders, each as from time to time amended or supplemented, and all statements, reports and certificates delivered by the Borrower to the Agent or the Lenders in connection therewith.

"Lender Obligations" shall mean all present and future obligations and Indebtedness of the Borrower or any Subsidiary owing to the Agent or the Lenders under this Agreement or any other Lender Agreement, including, without limitation, the obligations to pay the Indebtedness from time to time evidenced by the Notes, and obligations to pay interest, commitment fees, balance deficiency fees, charges, expenses and indemnification from time to time owed under any Lender Agreement.

"Lenders" shall mean (i) initially, each Lender listed on the signature pages hereof, (ii) any other Person who becomes a Successor Lender hereunder in accordance with the terms of Section 12.2 hereof, and (iii) their respective successors and their assigns.

"Letter of Credit Limit" shall mean \$5,000,000.

"Letter of Credit Outstandings" shall mean, at any time, the sum of, without duplication, (i) the aggregate Stated Amount of all outstanding Letters of Credit and (ii) the aggregate amount of all Unpaid Drawings in respect of all Letters of Credit.

"Letter of Credit Request" shall mean a request by Borrower to an Issuing Lender substantially in the form of Exhibit H hereto.

"LIBOR Pricing Option" shall mean the option granted to the Borrower pursuant to Section 2.4 hereof to have interest on all or a portion of the Loans computed on the basis of the Applicable LIBOR Rate for an applicable Interest Period.

"LIBOR Rate" shall mean for any Interest Period for any LIBOR Rate Loan, the quotient of (i) the rate of interest determined by the Agent, at about 10:00 a.m. (Boston time) on the LIBOR Rate Fixing Day as being the rate at which deposits in U.S. dollars are offered to it by first-class banks in the London interbank market for deposit for such Interest Period in amounts comparable to the aggregate principal amount of LIBOR Rate Loans to which such Interest Period relates, divided by (ii) the difference between one (1) minus the Reserve Requirement (expressed as a decimal) applicable to that Interest Period. The LIBOR Rate shall be adjusted automatically as of the effective date of any change in the Reserve Requirement.

"LIBOR Rate Fixing Day" shall mean, in the case of any LIBOR Rate Loan, the second Business Day preceding the Business Day on which an Interest Period begins.

"LIBOR Rate Loan" shall mean any Loan hereunder upon which interest will accrue on the basis of a formula including as a component thereof the LIBOR Rate. The expiration date of any LIBOR Rate Loan shall be the last day of the Interest Period applicable to such LIBOR Rate Loan.

"LIBOR Rate Margin" shall mean a rate per annum determined in accordance with the Pricing Schedule.

"LMCS Agreement" shall mean an agreement entered into between the Agent and the Borrower governing the cash management of the Borrower on terms satisfactory to the Agent and Borrower.

"Loan" shall mean all or a portion of the Advances outstanding hereunder or made to the Borrower by the Lenders pursuant to Article 2 of this Agreement, and "Loans" means all of such loans, collectively.

"Material Adverse Effect" shall mean a material adverse effect on the business, properties, prospects, assets or condition, financial or otherwise, of the Borrower or any of its Subsidiaries.

"Maximum Credit Amount" shall mean \$50,000,000; provided that if the obligations of the Lenders to make further Advances is terminated upon the occurrence of a Default, the Maximum Credit Amount as of any date of determination thereafter shall be deemed to be \$0.

"1998 Financial Statements" shall mean the Consolidated Balance Sheet of the Borrower and its Subsidiaries as of December 31, 1998 and the related Consolidated Statements of Income, Shareholders' Equity and Cash Flow for the year then ended and notes to such financial statements.

"Note or Notes" shall mean the Notes issued by the Borrower to Lender's in accordance with the provisions of Section 2.1(a) hereof.

"Notice of Borrowing" shall have the meaning set forth in Section 2.2(a).

"Pension Plan" shall mean an employee benefit plan or other plan maintained for the employees of the Borrower or any Subsidiary as described in Section 4021(a) of ERISA.

"Permitted Acquisition Advance or Advances" shall mean any loan or advance from any Lender to the Borrower for Permitted Acquisitions.

"Permitted Acquisitions" shall mean the acquisition of all or substantially all of the assets, shares or partnership interests of a Person by the Borrower, provided that (a) any such Person must be in a substantially similar or related line of business as the Borrower, (b) the ratio of total consideration paid for such property to the fair market value of such property must be comparable to recent industry transactions, (c) such Person must have positive EBITDA for at least the twelve months of operations prior to the proposed acquisition, (d) immediately subsequent to the acquisition, the Borrower must be in compliance with all terms of the Lender Agreements, and (e) after giving effect to the acquisition, the ratio of Consolidated Senior Debt to EBITDA must not exceed 2.5 to 1.

"Person" shall mean an individual, corporation, partnership, joint venture, association, estate, joint stock company, trust, organization, business, or a government or agency or political subdivision thereof.

"Pricing Notice" shall have the meaning set forth in Section 2.4 hereof.

"Pricing Schedule" shall mean the schedule attached hereto as Schedule 2.

"Prime Rate" shall mean the greater of (i) the rate of interest announced from time to time by the Agent at its head office located at 100 Summer Street, Boston, Massachusetts as its "Prime Rate" and (ii) the Federal Funds Effective Rate plus 1/2 of 1% per annum (rounded upwards, if necessary, to the next 1/8 of 1%).

"Prime Rate Loan" shall mean any Advance on the Loan bearing interest at a fluctuating rate determined by reference to the Applicable Prime Rate.

"Prime Rate Margin" shall mean a rate per annum determined in accordance with the Pricing Schedule.

"Reportable Event" shall mean an event reportable to the Pension Benefit Guaranty Corporation under Section 4043 of Title IV of ERISA.

"Required Lenders" shall mean, at any time, any two or more of the Lenders having made not less than 66.7% of the outstanding principal amount of the Loans and the unused Commitment Amounts of the Lenders hereunder.

"Reserve Requirement" shall mean the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on the Lenders against "Euro-currency Liabilities" as defined in said Regulation D.

"Revolving Credit Facility" shall have the meaning set forth in Section 2.1.

"Stated Amount" of each Letter of Credit shall mean the maximum available to be drawn thereunder (regardless of whether any conditions for drawing could then be met.

"Subordinated Indebtedness" shall mean Indebtedness of the Borrower which is subordinated to (i) the Indebtedness of the Borrower hereunder, (ii) the Notes and (iii) to all other Lender Obligations, on terms and conditions approved in writing by the Agent.

"Subsidiary" shall mean any Person of which the Borrower or other specified parent shall now or hereafter at the time own, directly or indirectly through one or more Subsidiaries or otherwise, sufficient voting stock (or other beneficial interest) to entitle it to elect at least a majority of the board of directors or trustees or similar managing body.

"UCC" shall mean the Massachusetts Uniform Commercial Code, Massachusetts General Laws c. 106, as amended from time to time.

"Unpaid Drawings" shall have the meaning set forth in Section 2.14(d).

Section 1.2. Accounting Terms. All accounting terms used and not defined in this Agreement shall be construed in accordance with generally accepted accounting principles consistently applied, and all financial data required to be delivered hereunder shall be prepared in accordance with such principles.

ARTICLE 2. THE REVOLVING CREDITS

Section 2.1. The Revolving Credit.

(a Except as otherwise provided for in the LMCS Agreement, subject to the terms and conditions of this Agreement and so long as there exists no Default, at any time prior to the Credit Termination Date, each Lender, severally and not jointly, shall make such Advances to the Borrower as the Borrower may from time to time request, by notice to the Agent in accordance with Section 2.2(a), in an aggregate amount for all outstanding Advances (i) as to each Lender, not to exceed at any time such Lender's Commitment Percentage of the Maximum Credit Amount, and (ii) as to all Lenders, not to exceed the Maximum Credit Amount (the "Revolving Credit Facility"). The outstanding principal amount of the Advances, together with all accrued interest and other fees and charges related thereto, shall be repaid in full on the Credit Termination Date. On the Closing Date the Borrower shall execute and deliver to each Lender a Note to evidence the Advances from time to time made by such Lender to the Borrower hereunder. Upon receipt of an affidavit of an officer of any Lender as to the loss, theft, destruction or mutilation of a Note and, in the case of any such loss, theft, destruction or mutilation, upon cancellation of such Note, Borrower will issue, in lieu thereof, a replacement Note in the same principal amount thereof and otherwise of like tenor.

(b Subject to the foregoing limitations and the provisions of Section 4.2, the Borrower shall have the right to make prepayments reducing the outstanding balance of

Advances and to request further Advances, all in accordance with Section 2.2, without other restrictions hereunder; provided that the Lenders shall have the absolute right to refuse to make any Advances for so long as there exists any Default or any other condition which would constitute a Default upon the making of such an Advance.

Section 2.2. Making of Advances.

(a Except as otherwise provided for in the LMCS Agreement, each Advance other than a Letter of Credit Request which shall be submitted in accordance with the provisions of Section 2.14 hereof, shall be made on notice given by the Borrower to the Agent not later than 12:00 noon (Boston time) one Business Day prior to the date of the proposed Borrowing (a "Notice of Borrowing") substantially in the form of Exhibit B hereto; provided, however, that (i) if the Borrower elects a LIBOR Rate Pricing Option with respect to any Advance in accordance with Section 2.4 hereof, such Notice of Borrowing shall be given by the Borrower contemporaneously with a Pricing Notice in the manner and within the time specified in Section 2.4, (ii) if such Advance is a Permitted Acquisition Advance, such Notice of Borrowing shall be given by the Borrower contemporaneously with a Certificate of Permitted Acquisition substantially in the form of Exhibit C hereto and (iii) no Notice of Borrowing requesting a Permitted Acquisition Advance equal to or in excess of \$20,000,000 shall be effective (and no Advance from the Lenders required) without the prior consent of the Agent. The Agent shall give the Lenders notice of each Notice of Borrowing in accordance with the Agent's customary practice. Each such Notice of Borrowing shall be by telephone or telecopy, in each case confirmed immediately in writing by the Borrower in substantially the form of Exhibit B hereto, specifying therein (i) the requested date of such Advance, and (ii) the amount of such Advance (which must be a minimum of \$100,000). The Borrower agrees to indemnify and hold the Lenders harmless for any action, including the making of any Advances hereunder, or loss or expense, taken or incurred by the Agent and the Lenders in good faith reliance upon such telephone request. At the time of the initial request for an Advance made under this Section 2.2(a), the Borrower shall have provided the Agent with a Compliance Certificate. The Borrower hereby agrees (i) that the Lenders shall be entitled to rely upon the Compliance Certificate most recently delivered to the Agent until it is superseded by a more recent Compliance Certificate, and (ii) that each request for an Advance, whether by telephone or in writing or otherwise, shall constitute a confirmation of the representations and warranties contained in the most recent Compliance Certificate then in the Agent's possession.

(b Subject to the terms and conditions of this Agreement, each Lender shall make available on or before 2:00 p.m. on the date of each proposed Advance, to the Agent at the Agent's address and in immediately available funds, such Lender's Commitment Percentage of such Advance. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article 3, the Agent will credit such funds to the Borrower's account on the date of the proposed Advance.

(c Unless the Agent shall have received notice from a Lender prior to the date of any Advance that such Lender will not make available to the Agent such Lender's Commitment Percentage of such Advance, the Agent may assume that such Lender has made

such amount available to the Agent on the date of such Advance in accordance with and as provided in this Section 2.2 and the Agent may, in reliance upon such assumption, make available on such date a corresponding amount to the Borrower. If and to the extent such Lender shall not have so made its Commitment Percentage of such Advance available to the Agent and the Agent shall have made available such corresponding amount to the Borrower, such Lender agrees to pay to the Agent forthwith on demand, and the Borrower agrees to repay to the Agent within two Business Days after demand (but only after demand for payment has first been made to such Lender and such Lender has failed to make such payment), an amount equal to such corresponding amount together with interest thereon for each day from the date the Agent shall make such amount available to the Borrower until the date such amount is paid or repaid to the Agent, at an interest rate equal to the interest rate applicable at the time to such Advances. If such Lender shall pay to the Agent such corresponding amount, such amount so paid shall constitute such Lender's Advance for purposes of this Agreement. If the Borrower makes a repayment required by the foregoing provisions of this Section 2.2(c) and thereafter the applicable Lender or Lenders make the payments to the Agent required by this Section 2.2(c), the Agent shall promptly refund the amount of the Borrower's payment.

(d The failure of any Lender to make the Advance to be made by it on any date shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on such date, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender.

Section 2.3. Interest on Advances.

(a Subject to the terms of Section 2.4 relating to LIBOR Pricing Options, the Borrower shall pay interest on the unpaid balance of the Advances from time to time outstanding at a per annum rate equal to the Applicable Prime Rate. Interest on the Advances shall be payable monthly in arrears on the first day of the month commencing March 1, 2000, and continuing until all of the Indebtedness of the Borrower to the Lenders under the Notes shall have been paid in full.

Section 2.4. Election of LIBOR Pricing Options.

(a Subject to all the terms and conditions hereof and so long as there exists no Default, the Borrower may, by delivering a pricing notice (the "Pricing Notice") to the Agent received at or before 10:00 a.m. Boston time on the date two Business Days prior to the commencement of the Interest Period selected in such Pricing Notice, elect to have all or a portion of the outstanding Advances, as the Borrower may specify in such Pricing Notice, accrue and bear daily interest during the Interest Period so selected at a per annum rate equal to the Applicable LIBOR Rate for such Interest Period; provided, however, that any such election made with respect to the Advances shall be in an amount not less than \$1,000,000 and in increments of \$1,000,000; and provided further that no such election will be made if it would result in there being more than four (4) LIBOR Pricing Options in the aggregate outstanding at any one time. Interest on Loans bearing interest at the Applicable LIBOR Rate shall be paid for the applicable Interest Period on the last day thereof and when such Loan is due (whether at maturity, by reason of acceleration or otherwise).

(b Each Pricing Notice shall be substantially in the form of Exhibit E attached hereto and shall specify: (i) the selection of a LIBOR Pricing Option; (ii) the effective date and amount of Advances or a portion thereof subject to such LIBOR Pricing Option, subject to the limitations set forth herein; and (iii) the duration of the applicable Interest Period. Each Pricing Notice shall be irrevocable.

(c The Agent will promptly inform each Lender of a Pricing Notice and the Interest Period specified by the Borrower therein. Upon determination by the Agent of the Applicable LIBOR Rate for any Interest Period selected by the Borrower, the Agent will promptly inform the Borrower and each Lender of such Applicable LIBOR Rate so determined or, if applicable, the reason why the Borrower's election will not become effective.

Section 2.5. Additional Payments.

(a During the continuance of any Default, the Borrower shall, on demand, pay to the Agent for the account of the Lenders interest on the unpaid principal balance of the Advances and, to the extent permitted by law, on any overdue installments of interest, at a rate per annum equal to the lesser of (i) the stated interest rate(s) applicable thereto plus 3% per annum, and (ii) the maximum rate of interest permitted to be charged under applicable law.

(b In addition to any amounts payable under Section 2.5(a) above, if any payment of principal or interest due hereunder is not made within ten (10) days of its due date, the Borrower will pay to the Agent for the account of the Lenders, on demand, a late payment charge equal to 5% of the amount of such payment; provided, however, that the provisions of this Section 2.5(b) shall not limit the Agent's and the Lenders' rights to exercise any of their rights or remedies, including those provided in Section 10.2, if an Event of Default has occurred.

Section 2.6. Computation of Interest, Etc. Interest hereunder and under the Advances shall be computed on the basis of a 360-day year for the number of days actually elapsed. Any

increase or decrease in the interest rate on the Advances resulting from a change in the Prime Rate shall be effective immediately from the date of such change. No interest payment or interest rate charged hereunder shall exceed the maximum rate authorized from time to time by applicable law. The outstanding balance of the Notes as reflected on the Agent's records from time to time shall be considered correct and binding on the Borrower and the Lenders (absent manifest error) unless within thirty (30) days after receipt of any notice by the Agent or any Lender of such outstanding amount, the Borrower or a Lender notifies the Agent to the contrary.

Section 2.7. Fees

(a) The Borrower shall pay to the Agent, for the accounts of the Lenders in accordance with their respective Commitment Percentages, a facility fee (the "Facility Fee") computed at a rate of one quarter percent (1/4%) per annum on the average daily unused amount of the Maximum Credit Amount from time to time in effect from the date hereof to and including the Credit Termination Date. The Commitment Fee shall be payable quarterly in arrears on the first day of each of the quarter, e.g. July 1, October 1, January 1 and April 1, commencing April 1, 2000.

(b) The Borrower shall pay to the Agent, for the Agent's own account, such agency fees as are provided in a letter agreement between the Borrower and the Agent.

(c) The Borrower agrees to pay to the Issuing Lender a fee in respect of each Letter of Credit issued by it (the "Facing Fee") computed for each day at the rate of one quarter percent (1/4%) per annum on the Stated Amount of all Letters of Credit outstanding on such day. Accrued Facing Fees shall be due and payable quarterly in arrears on the first day of each of the quarterly payment dates, e.g. July 1, October 1, January 1, and April 1, commencing April 1, 2000, and payable on the date upon which the Revolving Credit Facility is terminated.

Section 2.8. Set-Off. To the extent not prohibited by applicable law, the Borrower hereby authorizes the Agent and each Lender, without notice to the Borrower, if and to the extent payment is not promptly made when due pursuant to the Notes or pursuant to any provision hereof or of any other Lender Agreement, to charge against any account of the Borrower with the Agent or such Lender, an amount equal to the accrued interest and principal and other amounts from time to time then due and payable to the Agent and the Lenders hereunder and under all other Lender Agreements.

Section 2.9. Sharing of Payments. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Loans made by it in excess of its ratable share (according to the then outstanding principal amount of the Loans) of payments on account of the Loans obtained by all the Lenders, such Lender shall purchase from the other Lenders such participations in the Loans held by such other Lenders as shall cause such purchasing Lender to share such payment ratably according to the then outstanding principal amount of the Loans with each of such other Lenders; provided, however, that if all or any portion of such payment is thereafter recovered from such purchasing Lender, the purchase shall be rescinded and the purchase price restored to the extent of such

recovery, with interest at an interest rate per annum equal to the Applicable Prime Rate. The Borrower agrees that any Lender so purchasing a participation in the Loans from another Lender pursuant to this Section 2.9 may, to the fullest extent permitted by law, exercise all its rights of payment with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

Section 2.10. Reduction of Commitment by the Borrower. The Borrower at its option may, at any time and from time to time, irrevocably reduce in part (in integral multiples of \$1,000,000) the unused portion of the Maximum Credit Amount on not less than five (5) Business Days' prior written notice to the Agent. No such reduction may be reinstated by the Borrower.

Section 2.11. Increased Costs, Etc.

(a) Anything herein to the contrary notwithstanding, if any changes in present or future applicable law (which term "applicable law", as used in this Agreement, includes statutes and rules and regulations thereunder and interpretations thereof by any competent court or by any governmental or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time heretofore or hereafter made upon or otherwise issued to any Lender by any central bank or other fiscal, monetary or other authority, whether or not having the force of law), including without limitation any change according to a prescribed schedule of increasing requirements, whether or not known or in effect as of the date hereof, shall (i) subject such Lender to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Agreement or the payment to such Lender of any amounts due to it hereunder, or (ii) materially change the basis of taxation of payments to such Lender of the principal of or the interest on the Advances or any other amounts payable to such Lender hereunder, or (iii) impose or increase or render applicable any special or supplemental deposit or reserve or similar requirements or assessment against assets held by, or deposits in or for the account of, or any liabilities of, or loans by an office of such Lender in respect of the transactions contemplated herein, or (iv) impose on such Lender any other condition or requirement with respect to this Agreement or any Advance, and the result of any of the foregoing is (A) to increase the cost to such Lender of making, funding or maintaining all or any part of the Advances or its commitment hereunder, or (B) to reduce the amount of principal, interest or other amount payable to such Lender hereunder, or (C) to require such Lender to make any payment or to forego any interest or other sum payable hereunder, the amount of which payment or foregone interest or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Lender from the Borrower hereunder, then, and in each such case not otherwise provided for hereunder, the Borrower will upon demand made by such Lender promptly following such Lender's receipt of notice pertaining to such matters accompanied by calculations thereof in reasonable detail, pay to such Lender such additional amounts as will be sufficient to compensate such Lender for such additional cost, reduction, payment or foregone interest or other sum; provided that the foregoing provisions of this sentence shall not apply in the case of any additional cost, reduction, payment or foregone interest or other sum resulting from any taxes charged upon or by reference to the overall net income, profits or gains of any Lender. In determining the additional amounts payable hereunder, the Lenders may use any reasonable method of averaging, allocating or attributing such additional costs, reductions, payments, foregone interest or other sums among their respective customers.

(b) Anything herein to the contrary notwithstanding, if, after the date hereof, any Lender shall have determined that any present or future applicable law, rule, regulation, guideline, directive or request (whether or not having force of law), including without limitation any change according to a prescribed schedule of increasing requirements, whether or not known or in effect as of the date hereof, regarding capital requirements for banks or bank holding companies generally, or any change therein or in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by such Lender with any of the foregoing, either imposes a requirement upon such Lender to allocate additional capital resources or increases such Lender's requirement to allocate capital resources or such Lender's commitment to make, or to such

Lender's maintenance of, the Advances hereunder, which has or would have the effect of reducing the return on such Lender's capital to a level below that which such Lender could have achieved (taking into consideration such Lender's then existing policies with respect to capital adequacy and assuming full utilization of such Lender's capital) but for such applicability, change, interpretation, administration or compliance, by any amount deemed by such Lender to be material, such Lender shall promptly after its determination of such occurrence give notice thereof to the Borrower. In such event, commencing on the date of such notice (but not earlier than the effective date of any such applicability, change, interpretation, administration or compliance), the fees payable hereunder shall increase by an amount which will, in such Lender's reasonable determination, evidenced by calculations in reasonable detail furnished to the Borrower, compensate such Lender for such reduction, such Lender's determination of such amount to be conclusive and binding upon the Borrower, absent manifest error. In determining such amount, such Lender may use any reasonable methods of averaging, allocating or attributing such reduction among its customers.

Section 2.12. Changed Circumstances. In the event that:

(a on any date on which the Applicable LIBOR Rate would otherwise be set the Agent shall have determined in good faith (which determination shall be final and conclusive) that adequate and fair means do not exist for ascertaining the LIBOR Rate, as applicable; or

(b at any time the Agent shall have determined in good faith (which determination shall be final and conclusive) that

(i the implementation of LIBOR Pricing Option has been made impracticable or unlawful by (A) the occurrence of a contingency that materially and adversely affects the London interbank market, or (B) compliance by any Lender in good faith with any applicable law or governmental regulation, guideline or order or interpretation or change thereof by any governmental authority charged with the interpretation or administration thereof or with any request or directive of any such governmental authority (whether or not having the force of law); or

(ii the LIBOR Rate shall no longer represent the effective cost to the Lenders for U.S. dollar deposits in the London interbank market, as applicable for deposits in which they regularly participate;

then, and in such event, the Agent shall forthwith so notify the Borrower thereof. Until the Agent notifies the Borrower that the circumstances giving rise to such notice no longer apply, the obligation of the Lenders and the Agent to allow election by the Borrower of a LIBOR Pricing Option shall be suspended. If at the time the Agent so notifies the Borrower, the Borrower has previously given the Agent a Pricing Notice with respect to a LIBOR Pricing Option, but the LIBOR Pricing Option requested therein has not yet gone into effect, such Pricing Notice shall automatically be deemed to be withdrawn and be of no force or effect. Upon such date as shall be specified in such notice (which shall not be earlier than the date such notice is given), the

LIBOR Pricing Option with respect to all LIBOR Rate Loans shall be terminated and the Borrower shall pay all interest due on such LIBOR Rate Loans and any amounts required to be paid pursuant to Section 4.6.

Section 2.13. Use of Proceeds. The proceeds of all Advances shall be used by the Borrower for corporate and general working capital purposes, repurchases or redemptions by Borrower of Borrower's capital stock in an aggregate amount not to exceed \$5,000,000 and for Permitted Acquisitions. The Borrower will not, directly or indirectly, use any part of such proceeds for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock.

Section 2.14. Letters of Credit.

(a) Letters of Credit.

(i Subject to and upon the terms and conditions herein set forth, the Borrower may request that any Issuing Lender issue, at any time and from time to time on and after the Closing Date and prior to the Credit Termination Date, for the account of the Borrower an irrevocable standby letter of credit, in a form customarily used by such Issuing Lender or in such other form as has been approved by such Issuing Lender, such approval not to be unreasonably withheld or delayed (each such standby letter of credit, a "Letter of Credit") in support of standby obligations of the Borrower incurred in the ordinary course of business and acceptable to the Agent (the "L/C Supportable Obligations").

(ii Subject to the terms and conditions contained herein, the Agent hereby agrees that it will (and at the Borrower's request each other Issuing Lender may, at its option, agree that it will), at any time and from time to time on or after the Closing Date and prior to the Credit Termination Date, following its receipt of the respective Letter of Credit Request, issue for the account of the Borrower one or more Letters of Credit in support of such L/C Supportable Obligations of the Borrower or any of its Subsidiaries as is permitted to remain outstanding without giving rise to a Default or Event of Default hereunder, provided that the respective Issuing Lender shall be under no obligation to issue any Letter of Credit if at the time of such issuance:

(A any order, judgment or decree of any governmental authority or arbitrator shall purport by its terms to enjoin or restrain such Issuing Lender from issuing such Letter of Credit or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction or reserve or capital requirement (for which such Issuing Lender is not otherwise

compensated) not in effect on the date hereof, or any unreimbursed loss, cost or expense which was not applicable, in effect or known to such Issuing Lender as of the date hereof and which such Issuing Lender in good faith deems material to it; or

(B such Issuing Lender shall have received notice from any Lender prior to the issuance of such Letter of Credit of the type described in the second sentence of Section 2.14(b)(ii), i.e. that another Lender has issued a Letter of Credit based on the same Letter of Credit Request.

(iii Notwithstanding the foregoing, (A) no Letter of Credit shall be issued the Stated Amount of which, when added to the Letter of Credit Outstandings (exclusive of Unpaid Drawings which are repaid on the date of, and prior to the issuance of, the respective Letter of Credit) and the aggregate principal amount of all Advances made by the Lenders and then outstanding, would exceed the Maximum Credit Amount at such time, (B) each Letter of Credit shall be denominated in Dollars, (C) each Letter of Credit shall by its terms terminate on or before the earlier of (x) the date which occurs 12 months after the date of the issuance thereof (although any such Letter of Credit may be automatically extendable for successive periods of up to 12 months, but not beyond the tenth Business Day prior to the Credit Termination Date, on terms acceptable to the Issuing Lender thereof) and (y) the tenth Business Day prior to the Credit Termination Date, (D) the Stated Amount of each Letter of Credit upon issuance shall be not less than \$100,000 or such lesser amount as is acceptable to the respective Issuing Lender and (E) no Letter of Credit shall be issued the Stated Amount of which, when added to the Letter of Credit Outstandings (exclusive of Unpaid Drawings which are repaid on the date of, and prior to the issuance of, the respective Letter of Credit) would exceed the Letter of Credit Limit.

(b Letter of Credit Requests.

(i Whenever the Borrower desires that a Letter of Credit be issued for its account, the Borrower shall give the Agent and the respective Issuing Lender at least three Business Days' (or such shorter period as is acceptable to the respective Issuing Lender) written notice thereof. Each notice shall be in the form of Exhibit I (each a "Letter of Credit Request").

(ii The making of each Letter of Credit Request shall be deemed to be a representation and warranty by the Borrower that such Letter of Credit may be issued in accordance with, and will not violate the requirements of, Section 2.14(a)(iii). Upon the issuance of any Letter of Credit, such Issuing Lender shall promptly notify each Lender of such issuance and such notice shall be accompanied by a copy of the issued Letter of Credit.

(c Letter of Credit Participations.

(i Immediately upon the issuance by any Issuing Lender of any Letter of Credit, such Issuing Lender shall be deemed to have sold and transferred to each Lender, other than such Issuing Lender (each such Lender, in its capacity under this Section 2.14(c), a "Participant"), and each such Participant shall be deemed irrevocably and unconditionally to have purchased and received from such Issuing Lender, without recourse or warranty, an undivided interest and participation, to the extent of such Participant's Commitment Percentage, in such Letter of Credit, each drawing made thereunder and the obligations of the Borrower under this Agreement with respect thereto (excluding the Facing Fee), and any security therefor or guaranty pertaining thereto. Upon any change in the Commitment Percentages of the Lenders pursuant hereto, it is hereby agreed that, with respect to all outstanding Letters of Credit and Unpaid Drawings, there shall be an automatic adjustment to the participations pursuant to this Section 2.14(c) to reflect the new Commitment Percentages of the assignor and assignee Lender or of all Lenders, as the case may be.

(ii In determining whether to pay under any Letter of Credit, the respective Issuing Lender shall have no obligation relative to the other Lenders other than to confirm that any documents required to be delivered under such Letter of Credit appear to have been delivered and that they appear to comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by any Issuing Lender under or in connection with any Letter of Credit, if taken or omitted in the absence of gross negligence or willful misconduct, shall not create for such Issuing Lender any resulting liability to the Borrower or any Lender.

(iii In the event that any Issuing Lender makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 2.14(d)(i), such Issuing Lender shall promptly notify the Agent, which shall promptly notify each Participant, of such failure, and each Participant shall promptly and unconditionally pay to such Issuing Lender the amount of such Participant's Commitment Percentage of such unreimbursed payment in Dollars and same day funds. If the Agent so notifies any Participant prior to 11:00 A.M. (Boston time) on any Business Day, such Participant shall make available such funds to such Issuing Lender on such Business Day. If and to the extent such Participant shall not have so made its Commitment Percentage of the amount of such payment available to such Issuing Lender, such Participant agrees to pay to such Issuing Lender, forthwith on demand such amount, together with interest thereon, for each day from such date until the date such amount is paid to such Issuing Lender at the overnight federal funds rate. The failure of any Participant to make available to such Issuing Lender its Commitment Percentage of any payment under any Letter of Credit shall not relieve any other Participant of its obligation hereunder to make available to such Issuing Lender its Commitment Percentage of any payment under any Letter of Credit on the date required, as specified above, but no Participant shall be responsible for the failure of any other

Participant to make available to such Issuing Lender such other Participant's Commitment Percentage of any such payment.

(iv Whenever any Issuing Lender receives a payment of a reimbursement obligation as to which it has received any payments from the Participants pursuant to clause (c) above, such Issuing Lender shall forward such payment to the Agent, which in turn shall distribute to each Participant which has paid its Commitment Percentage thereof, in United States dollars and in same day funds, an amount equal to such Participant's share (based upon the proportionate aggregate amount originally funded by such Participant to the aggregate amount funded by all Participants) of the principal amount of such reimbursement obligation and interest thereon accruing after the purchase of the respective participations.

(v Upon the request of any Participant, each Issuing Lender shall furnish to such Participant copies of any Letter of Credit issued by it and such other documentation as may reasonably be requested by such Participant.

(vi The obligations of the Participants to make payments to each Issuing Lender with respect to Letters of Credit issued by it shall be irrevocable and, except as provided in Section 2.14(c)(ii), not subject to any qualification or exception whatsoever and shall be made in accordance with the terms and conditions of this Agreement under all circumstances, including, without limitation, any of the following circumstances:

(A any lack of validity or enforceability of this Agreement or any of the other Lender Agreement;

(B the existence of any claim, setoff, defense or other right which the Borrower or any of its Subsidiaries may have at any time against a beneficiary named in a Letter of Credit, any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), the Agent, any Issuing Lender, any Participant, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transaction between the Borrower and the beneficiary named in any such Letter of Credit);

(C any draft, certificate or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(D the surrender or impairment of any security for the performance or observance of any of the terms of any of the Lender Agreements; or

(E the occurrence of any Default or Event of Default.

(d Agreement to Repay Letter of Credit Drawings.

(i The Borrower hereby agrees to reimburse the respective Issuing Lender, by making payment to the Agent in immediately available funds, for any drawing (each, a "Drawing") made by it under any Letter of Credit (each such Drawing until reimbursed, an "Unpaid Drawing"), no later than four Business Days after the date of such Drawing, with interest on the amount of such Drawing, to the extent not reimbursed prior to 12:00 Noon (Boston time) on the date of such Drawing, from and including the date of such Drawing to but excluding the date such Issuing Lender was reimbursed by the Borrower therefor at a rate per annum which shall be the Applicable Prime Rate; provided, however, to the extent such amounts are not reimbursed prior to 12:00 Noon (Boston time) on the seventh Business Day following such Drawing, interest shall thereafter accrue on the amount (and until reimbursed by the Borrower) at a rate per annum which shall be the Prime Rate in effect from time to time plus 4%, in each such case, with interest to be payable on demand. The respective Issuing Lender shall give the Borrower prompt written notice of each Drawing under any Letter of Credit, provided that the failure to give any such notice shall in no way affect, impair or diminish the Borrower's obligations hereunder.

(ii The obligations of the Borrower under this Section 2.14(d) to reimburse the respective Issuing Lender with respect to Drawings (including interest thereon) shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment which the Borrower may have or have had against any Lender (including in its capacity as an Issuing Lender or as a Participant), or any nonapplication or misapplication by the beneficiary of the proceeds of such Drawing, the respective Issuing Lender's only obligation to the Borrower being to confirm that any documents required to be delivered under such Letter of Credit appear to have been delivered and that they appear to comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by any Issuing Lender under or in connection with any Letter of Credit if taken or omitted in the absence of gross negligence or willful misconduct, shall not create for such Issuing Lender any resulting liability to the Borrower.

ARTICLE 3. CONDITIONS TO LOANS AND ADVANCES

Section 3.1. Conditions to First Advance. The Lenders' obligations to make the first Advance shall be subject to compliance by the Borrower with its agreements contained in this Agreement, and to the condition precedent that the Lenders shall have received each of the following, in form and substance satisfactory to the Agent, Lenders and their counsel or in the form attached hereto as an Exhibit, as the case may be:

(a The Lender Agreements, including but not limited to the Guaranty Agreement and the Notes, duly executed by the Borrower.

(b Copies of the resolutions of the Board of Directors of the Borrower authorizing the execution, delivery and performance of this Agreement, the Notes and the other Lender Agreements to which the Borrower is a party, certified by the Secretary or an Assistant Secretary (or Clerk or Assistant Clerk) of the Borrower (which certificate shall state that such resolutions are in full force and effect).

(c A certificate of the Secretary or an Assistant Secretary (or Clerk or Assistant Clerk) of the Borrower certifying the name and signatures of the officers of the Borrower authorized to sign this Agreement, the Notes, the other Lender Agreements to which the Borrower is a party and the other documents to be delivered by the Borrower hereunder.

(d Certificates of legal existence and corporate good standing for the Borrower of recent date issued by the appropriate governmental authorities.

(e Certificate of tax good standing for the Borrower of recent date issued by the appropriate governmental authorities.

(f Certified copies of the Certificate of Incorporation of Borrower.

(g Copies of By-laws of the Borrower certified by the Secretary or Assistant Secretary (or Clerk or Assistant Clerk) to be a true and correct copy thereof.

(h The opinions of counsel to the Borrower, dated the date of execution of this Agreement, in substantially the form of Exhibit F hereto.

(i A certificate of a duly authorized officer of the Borrower, dated the date of the first Advance, to the effect that (i) all conditions precedent on the part of the Borrower to the execution and delivery hereof and the making of the first Advance has been satisfied, (ii) the representations and warranties of the Borrower herewith and in all other Lender Agreements are true and correct as of the date hereof, (iii) no material litigation affecting the Borrower or its Subsidiaries exists, (iv) the absence of any material adverse change in the business, operations, assets, financial condition or prospects of the Borrower and its Subsidiaries, as specified in Section 5.12 thereto, (v) the Borrower has received all necessary governmental and third party approvals and is in compliance with all applicable laws, and (vi) upon execution and delivery of this Agreement and all other Lender Agreements no Default will exist hereunder and thereunder.

(j A Compliance Certificate dated the date of the first Advance if requested by Agent.

(k) A Certificate of the President or Chief Executive Officer of Borrower to the effect that all necessary governmental and third-party approvals have been obtained, and that Borrower is, and will be after giving effect to the transactions contemplated by this Agreement, in compliance with all applicable laws.

(l) A Certificate of the Chief Financial Officer of Borrower, in form satisfactory to Agent, dated the date of the first Advance, regarding (i) payment of all taxes by Borrower, (ii) filing of all required tax returns, and (iii) solvency of Borrower.

(m) If requested by the Agent, certificates of insurance issued to the Agent from an independent insurance broker dated the Closing Date, in form and substance satisfactory to the Agent, certifying as to the insurance on the assets of the Borrower and its Subsidiaries as required by the Agent and naming the Agent as loss payee.

(n) Copies of the resolutions of the Board of Directors of each of the Guarantors authorizing the execution, delivery and performance of the Lender Agreements to which such Guarantor is a party, certified by the Secretary or an Assistant Secretary (or Clerk or Assistant Clerk) of the Guarantor (which certificate shall state that such resolutions are in full force and effect).

(o) A certificate of the Secretary or an Assistant Secretary (or Clerk or Assistant Clerk) of each of the Guarantors certifying the name and signatures of the officers of such Guarantor authorized to sign the Lender Agreements to which such Guarantor is a party and the other documents to be delivered by such Guarantor hereunder.

(p) Certificates of legal existence and corporate good standing for each of the Guarantors of recent date issued by the appropriate governmental authorities.

(q) If requested by the Agent, certificates of tax good standing for each of the Guarantors of recent date issued by the appropriate governmental authorities.

(r) Certified copies of the Certificates of Incorporation of each of the Guarantors.

(s) Copies of By-laws of each of the Guarantors certified by the Secretary or Assistant Secretary (or Clerk or Assistant Clerk) to be a true and correct copy thereof.

(t) The opinions of counsel to the each of the Guarantors, dated the date of execution of this Agreement, in substantially the form of Exhibit G hereto.

(u) A certificate of a duly authorized officer of each of the Guarantors, dated the date of the first Advance, to the effect that (i) the representations and warranties of the Borrower as they relate to such Guarantor herewith and in all other Lender Agreements are true and correct as of the date hereof, (ii) no material litigation affecting such Guarantor or its Subsidiaries exists, (iii) the absence of any material adverse change in the business, operations, assets, financial condition or prospects of such Guarantor and its Subsidiaries, as specified in Section 5.12 thereto, (iv) such Guarantor has received all necessary governmental and third party approvals and is in compliance with all applicable laws, and (v) upon execution and delivery of this Agreement and all other Lender Agreements no Default will exist hereunder and thereunder.

(v) A Certificate of the Chief Financial Officer of each of the Guarantors, in form satisfactory to Agent, dated the date of the first Advance, regarding (i) payment of all taxes by such Guarantor, (ii) filing of all required tax returns by such Guarantor, and (iii) solvency of Guarantor.

(w) Evidence of the completion of the Corporate Restructuring.

(x) Evidence of restructuring and/or amendment of indebtedness of Borrower and Guarantors to IBM Credit Corp. and Deutsche Financial Services and their affiliates satisfactory to Agent, including, without limitation, evidence of the filing or delivery to Agent of all necessary Uniform Commercial Code amendments or termination statements.

(y) Such other documents, certificates and opinions as the Agent or the Lenders may reasonably request.

Section 3.2. Conditions to All Advances. The Lenders' obligations to make any Advances pursuant to this Agreement shall be subject to compliance by the Borrower with its agreements contained in this Agreement and each other Lender Agreement, and to the satisfaction, at or before the making of each Advance, of all of the following conditions precedent:

(a) The representations and warranties herein and those made by or on behalf of the Borrower in any other Lender Agreement shall be correct as of the date on which any Advance is made, with the same effect as if made at and as of such time (except as to transactions permitted hereunder and described in a Compliance Certificate previously delivered to the Agent and except that the references in Article 5 to the 1998 Financial Statements shall be deemed to refer to the most recent annual audited consolidated financial statements of the Borrower and its Subsidiaries furnished to the Agent.)

(b) On the date of any Advances hereunder, there shall exist no Default.

(c) The making of the requested Advances shall not be prohibited by any law or governmental order or regulation applicable to the Lenders or to the Borrower, and all necessary consents, approvals and authorizations of any Person for any such Advances shall have been obtained.

ARTICLE 4. PAYMENT AND REPAYMENT

Section 4.1. Mandatory Prepayment. If at any time the aggregate outstanding principal balance of all Advances made hereunder exceeds the Maximum Credit Amount, the Borrower shall immediately repay to the Agent for the ratable accounts of the Lenders an amount equal to such excess.

Section 4.2. Voluntary Prepayments.

(a) Except as otherwise provided for in the LMCS Agreement, the Borrower may make prepayments to the Agent for the ratable accounts of the Lenders of any outstanding principal amount of the Advances equal to \$500,000 or an integral multiple thereof which are Prime Rate Loans in accordance with Section 4.3 at any time prior to 12:00 noon (Boston time) on any Business Day without premium or penalty.

(b) The Borrower may make prepayments to the Agent for the ratable accounts of the Lenders of any Advances equal to \$500,000 or an integral multiple thereof which are LIBOR Rate Loans in accordance with Section 4.3 at any time prior to 12:00 noon (Boston time) on any Business Day subject, however, to the premiums and penalties set forth in Section 4.6.

Section 4.3. Payment and Interest Cutoff. Notice of each prepayment pursuant to Section 4.2 shall be given to the Agent (a) in the case of prepayment of Prime Rate Loans, not later than 12:00 noon (Boston time) on the Business Day immediately prior to the date of payment, and (b) in the case of prepayment of LIBOR Rate Loans on any day other than the last day of the Interest Period applicable thereto, not later than 12:00 noon (Boston time) two (2) Business Days prior to the proposed date of payment, and, in each case, shall specify the total principal amount of the Advances to be paid on such date. Notice of prepayment having been given in compliance with this Section 4.3, the amount specified to be prepaid shall become due and payable on the date specified for prepayment and from and after said date (unless the Borrower shall default in the payment thereof) interest thereon shall cease to accrue. Unpaid interest on the principal amount of any Advances so prepaid accrued to the date of prepayment shall be due on the date of prepayment.

Section 4.4. Payment or Other Actions on Non-Business Days. Whenever any payment to be made hereunder shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or fees, as the case may be. In the case of any other action the last day for performance of which shall be a day other than a Business Day, the date for performance shall be extended to the next succeeding Business Day.

Section 4.5. Method and Timing of Payments.

(a) All payments required to be made pursuant to the provisions of this Agreement and any other Lender Agreement, and all prepayments pursuant to Section 4.1, may be charged by the Agent against the Borrower's accounts with the Agent. The Borrower hereby authorizes the Agent and the Lenders, without notice to the Borrower, to charge against any account of the Borrower with the Agent or such Lender an amount equal to the accrued interest, principal and other amounts from time to time due and payable to the Agent and the Lenders hereunder and under all other Lender Agreements.

(b) The Borrower shall make each payment to be made by it hereunder not later than 12:00 noon (Boston time) on the day when due in lawful money of the United States to the Agent at its address set forth in Section 14.1 in immediately available funds. The Agent will, after its receipt thereof, distribute like funds relating to the payment of principal, interest or any other amounts payable hereunder ratably to the Lenders in accordance with their respective Commitment Percentages. Any payment made by the Borrower to the Agent under this Agreement or under the Notes in the manner provided in this Agreement shall be deemed to be a payment to each of the respective Lenders, unless the provisions of this Agreement expressly provide that any such payment shall be solely for the account of the Agent or any specific Lender.

Section 4.6. Payments Not at End of Interest Period. If the Borrower for any reason makes any payment of principal with respect to any LIBOR Rate Loan on any day other than the last day of the Interest Period applicable to such LIBOR Rate Loan, including without limitation by reason of acceleration, or fails to borrow a LIBOR Rate Loan after electing a LIBOR Pricing Option with respect thereto pursuant to Section 2.4, the Borrower shall pay to the Agent, for the ratable account of the Lenders, any amounts required to compensate the Lenders for any additional losses, costs or expenses which they may reasonably incur as a result of such payment or failure to borrow, including without limitation, any loss, including lost profits, costs or expenses incurred by reason of the liquidation, reutilization or reemployment of deposits or other funds acquired by the Lenders to fund or maintain such Advances. Such compensation may include, without limitation, an amount equal to (a) the amount of interest which would have accrued on the amount so paid or not borrowed, for the period from the date of such payment or failure to borrow, to the last day of the then current Interest Period for such Advance (or, in the case of a failure to borrow, to the last day of the Interest Period for the Advance which would have commenced on the date of such failure to borrow), at the applicable rate of interest for such Advance provided for herein minus (b) the amount of interest (as reasonably determined by the Agent), which would accrue and become payable to the Lenders during such period on the principal repaid or not borrowed if the Lenders, following such repayment or failure to borrow, were to reinvest such principal in U.S. Treasury securities selected by the Agent in an amount equal (as nearly as may be) to the principal so repaid or not borrowed and having a term equal (as near as may be) to such period. The Borrower shall pay such amount upon presentation by the Agent of a statement setting forth the amount and the Agent's calculation thereof pursuant hereto, which statement shall be deemed true and correct absent manifest error.

Section 4.7. Currency. All payments and prepayments provided for under this Agreement shall be made in lawful currency of the United States of America in immediately available funds.

ARTICLE 5. REPRESENTATIONS AND WARRANTIES

In order to induce the Agent and the Lenders to enter into this Agreement and to induce the Lenders to make the Advances as contemplated hereby, the Borrower hereby makes the following representations and warranties:

Section 5.1. Corporate Existence, Charter Documents, Etc. The Borrower and each Subsidiary is a corporation or limited liability company validly organized, legally existing and in good standing under the laws of the jurisdiction in which it is organized and has corporate or limited liability company power, as applicable, to own its properties and conduct its business as now conducted and as proposed to be conducted by it. Certified copies of the charter documents, By-Laws and limited liability company agreements, as applicable, of the Borrower and each Subsidiary have been delivered to the Lenders and are true, accurate and complete as of the date hereof.

Section 5.2. Principal Place of Business; Location of Records. The Borrower's and each Subsidiary's principal place of business is located at Route 101A (730 Milford Road), Merrimack, NH 03054, and the Borrower and each Subsidiary has had no other principal place of business during the last six months except as listed on Schedule 5.2 hereto. All of the books and records or true and complete copies thereof relating to the accounts and contracts of the Borrower and each Subsidiary are and will be kept at such location except as listed on Schedule 5.2 hereto.

Section 5.3. Qualification. The Borrower and each Subsidiary is duly qualified, licensed and authorized to do business and is in good standing as a foreign corporation in each jurisdiction where its ownership or leasing of properties or the conduct of its business requires it to be qualified.

Section 5.4. Subsidiaries. The Borrower has no Subsidiaries except for those listed in Schedule 5.4. All of the issued and outstanding capital stock of each Subsidiary listed on Schedule 5.4 is owned of record and beneficially by the Borrower or by one of the Subsidiaries.

Section 5.5. Corporate Power. The execution, delivery and performance of this Agreement, the Notes and all other Lender Agreements and other documents delivered or to be delivered by the Borrower or any Subsidiary to the Agent or the Lenders, and the incurrence of Indebtedness to the Lenders hereunder or thereunder, now or hereafter owing:

(a) are within the corporate or limited liability company powers, as applicable, of the Borrower and each Subsidiary, as the case may be, having been duly authorized by its Board of Directors or other similar governing body, and, if required by law, by its charter documents or by its By-Laws, by its stockholders;

(b) do not require any approval or consent of, or filing with, any governmental agency or other Person (or such approvals and consents have been obtained and delivered to the Lenders) and are not in contravention of law or the terms of the charter documents or By-Laws of the Borrower and each Subsidiary or any amendment thereof;

(c) do not and will not

(i) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower or any Subsidiary is a party or by which the Borrower, any Subsidiary or any of their respective properties are bound or affected,

(ii) result in, or require, the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature on any property now owned or hereafter acquired by the Borrower or any Subsidiary, except as provided in the Lender Agreements, or

(iii) result in a violation of or default under any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award having applicability to the Borrower or any Subsidiary, or to any of their respective properties.

Section 5.6. Valid and Binding Obligations. This Agreement, the Notes and all the other Lender Agreements executed in connection herewith and therewith constitute, or will constitute when delivered, the valid and binding obligations of the Borrower and its Subsidiaries, as the case may be, enforceable in accordance with their respective terms, except as the enforceability thereof may be subject to bankruptcy, insolvency, moratorium and other laws affecting the rights and remedies of creditors and secured parties and to the exercise of judicial discretion in accordance with general equitable principles.

Section 5.7. Other Agreements. Except as set forth in Schedule 5.7 hereto, neither the Borrower nor any Subsidiary is a party to any indenture, loan or credit agreement, or any lease or other agreement or instrument, or subject to any charter or corporate restriction, which is likely to have a Material Adverse Effect, or which restricts the ability of the Borrower or any Subsidiary to carry out any of the provisions of this Agreement, the Notes or any of the Lender Agreements executed in connection herewith and therewith.

Section 5.8. Payment of Taxes. The Borrower and its Subsidiaries have filed all tax returns which are required to be filed by them and have paid, or made adequate provision for the payment of, all taxes which have or may become due pursuant to said returns or to assessments received. Except as set forth on Schedule 5.8 hereto, all federal tax returns of the Borrower and its Subsidiaries through their fiscal year ended in 1998 have been audited by the Internal Revenue Service or are not subject to such audit by virtue of the expiration of the applicable statute of limitation, and the results of such audits are fully reflected in the balance sheet contained in the 1998 Financial Statements. The Borrower knows of no material additional assessments since such date for which adequate reserves appearing in the balance sheet contained in the 1998 Financial Statements have not been established. The Borrower and its Subsidiaries have made adequate provision for all current taxes, and to the best of the Borrower's knowledge there will not be any additional assessments for any fiscal periods prior to and including that which ended on the date of said balance sheet in excess of the amounts reserved therefor.

Section 5.9. Financial Statements. All balance sheets, statements and other financial information furnished to the Lenders in connection with this Agreement and the transactions contemplated hereby (each of which is listed on Schedule 5.9), including, without limitation, the 1998 Financial Statements, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved (except for normal year-end adjustments and for the absence of footnotes with interim statements) and present fairly the consolidated financial condition of the Borrower and its Subsidiaries and all such information so furnished was true, correct and complete as of the date thereof.

Section 5.10. Other Materials Furnished. No written information, exhibits, memoranda or reports furnished to the Lenders by or on behalf of the Borrower or any Subsidiary in connection with the negotiation of this Agreement contains any material misstatement of fact or omits to state a material fact necessary to make the statements contained therein not misleading.

Section 5.11. Stock. There are presently issued by the Borrower and its Subsidiaries and outstanding the shares of capital stock indicated on Schedule 5.11. The Borrower and its Subsidiaries have received the consideration for which such stock was authorized to be issued and have otherwise complied with all legal requirements relating to the authorization and issuance of shares of stock and all such shares are validly issued, fully paid and non-assessable. The Borrower and its Subsidiaries have no other capital stock or other equity interest of any class outstanding.

Section 5.12. Changes in Condition. Since the date of the balance sheet contained in the 1998 Financial Statements, there has been no material adverse change in the business or assets or in the condition, financial or otherwise, of the Borrower or any Subsidiary, and neither the Borrower nor any Subsidiary has entered into any transaction outside of the ordinary course of business which is material to the Borrower or any Subsidiary. Neither the Borrower nor any Subsidiary has any contingent liabilities of any material amount which are not referred to in the 1998 Financial Statements.

Section 5.13. Assets, Licenses, Patents, Trademarks, Etc.

(a) The Borrower and its Subsidiaries have good and marketable title to, or valid leasehold interests in, all of their assets, real and personal, including the assets carried on their books and reflected in the 1998 Financial Statements, subject to no liens, charges or encumbrances, except for (i) liens, charges and encumbrances described in Schedule 5.16 and permitted by Section 9.2 hereof, and (ii) assets sold, abandoned or otherwise disposed of in the ordinary course of business.

(b) The Borrower and its Subsidiaries own all material licenses, patents, patent applications, copyrights, service marks, trademarks, trademark applications, and trade names necessary to continue to conduct their business as heretofore conducted by them, now conducted by them and proposed to be conducted by them, each of which is listed, together with Patent and Trademark Office application or registration numbers, where applicable, on Schedule 5.13 hereto. The Borrower and its Subsidiaries conduct their respective businesses without

infringement or claim of infringement of any license, patent, copyright, service mark, trademark, trade name, trade secret or other intellectual property right of others, except where such claim or infringement would have no Material Adverse Effect. To the best knowledge of the Borrower, there is no infringement or claim of infringement by others of any material license, patent, copyright, service mark, trademark, trade name, trade secret or other intellectual property right of Borrower and its Subsidiaries.

Section 5.14. Litigation. There is no litigation, at law or in equity, or any proceeding before any federal, state, provincial or municipal board or other governmental or administrative agency pending or, to the knowledge of the Borrower, threatened, or any basis therefor, which involves a material risk of any judgment or liability which could result in any material adverse change in the business or assets or in the condition, financial or otherwise, of the Borrower or any Subsidiary, and no judgment, decree, or order of any federal, state, provincial or municipal court, board or other governmental or administrative agency has been issued against the Borrower or any Subsidiary which has or may have a Material Adverse Effect.

Section 5.15. Pension Plans. No employee benefit plan established or maintained by the Borrower or any Subsidiary or any other Person a member of the same "control group," as the Borrower (a "Pension Affiliate"), within the meaning of Section 302(f)(6)(b) of ERISA, (including any multi-employer plan to which the Borrower or any Subsidiary contributes) which is subject to Part 3 of Subtitle B of Title I of the ERISA, had a material accumulated funding deficiency (as such term is defined in Section 302 of ERISA) as of the last day of the most recent fiscal year of such plan ended prior to the date hereof, or would have had an accumulated funding deficiency (as so defined) on such day if such year were the first year of such plan to which Part 3 of Subtitle B of Title I of ERISA applied, and no material liability under Title IV of ERISA has been, or is expected by the Borrower or any Subsidiary to be, incurred with respect to any such plan by the Borrower or any Subsidiary or any Pension Affiliate. The execution, delivery and performance by the Borrower of this Agreement and the other Lender Agreements executed on the date hereof will not involve any prohibited transaction within the meaning of ERISA or Section 4975 of the Internal Revenue Code. The Borrower and its Subsidiaries have no Pension Plan other than those described on Schedule 5.15.

Section 5.16. Outstanding Indebtedness. The outstanding amount of Indebtedness for borrowed money, including Capitalized Lease Obligations and Guaranties of borrowed money, of the Borrower and its Subsidiaries as of the date hereof, in excess of \$250,000 is correctly set forth in Schedule 5.16 hereto, and said schedule correctly describes the credit agreements, guaranties, leases and other instruments pursuant to which such Indebtedness has been incurred and all liens, charges and encumbrances securing such Indebtedness. Said schedule also describes all agreements and other arrangements pursuant to which the Borrower or any Subsidiary may borrow any money.

Section 5.17. Environmental Matters. Except as set forth in Schedule 5.17:

(a) None of the Borrower, any Subsidiary or any operator of any of their respective properties is in violation, or to the Borrower's knowledge is in alleged violation, of any Environmental Law, which violation would have a Material Adverse Effect.

(b) None of the Borrower, any Subsidiary or any operator of any of their respective properties has received notice from any third party, including without limitation any federal, state, county, or local governmental authority, (i) that it has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended ("CERCLA") or any equivalent state law, with respect to any site or location; (ii) that any hazardous waste, as defined in 42 U.S.C. ss. 6903(5), any hazardous substances, as defined in 42 U.S.C. ss. 9601(14), any pollutant or contaminant, as defined in 42 U.S.C. ss. 9601(33), or any toxic substance, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws ("Hazardous Substances") which it has generated, transported or disposed of, has been found at any site at which a federal, state, county, or local agency or other third party has conducted or has ordered the Borrower, any Subsidiary or another third party or parties (e.g. a committee of potentially responsible parties) to conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or (iii) that it is or shall be a named party to any claim, action, cause of action, complaint (contingent or otherwise) or legal or administrative proceeding arising out of any actual or alleged release or threatened release of Hazardous Substances. For purposes of this Agreement, "release" means any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping of Hazardous Substances into the environment.

(c) (i) The Borrower, each Subsidiary and each operator of any real property owned or operated by the Borrower is in compliance, in all material respects, with all provisions of the Environmental Laws relating to the handling, manufacturing, processing, generation, storage or disposal of any Hazardous Substances; (ii) to the best of the Borrower's knowledge, no portion of property owned, operated or controlled by the Borrower or any Subsidiary has been used for the handling, manufacturing, processing, generation, storage or disposal of Hazardous Substances except in accordance with applicable Environmental Laws; (iii) to the best of the Borrower's knowledge, there have been no releases or threatened releases of Hazardous Substances on, upon, into or from any property owned, operated or controlled by the Borrower or any Subsidiary, which releases could have a Material Adverse Effect; (iv) to the best of the Borrower's knowledge, there have been no releases of Hazardous Substances on, upon, from or into any real property in the vicinity of the real properties owned, operated or controlled by the Borrower or any Subsidiary which, through soil or groundwater contamination, may have come to be located on the properties of the Borrower or any Subsidiary; (v) to the best of the Borrower's knowledge, there have been no releases of Hazardous Substances on, upon, from or into any real property formerly but no longer owned, operated or controlled by the Borrower or any Subsidiary.

(d) None of the properties of the Borrower or any Subsidiary is or, to their knowledge, shall be subject to any applicable environmental cleanup responsibility law or environmental restrictive transfer law or regulation by virtue of the transactions set forth herein and contemplated hereby.

Section 5.18. Foreign Trade Regulations. Neither the Borrower nor any Subsidiary is (a) a person included within the definition of "designated foreign country" or "national" of a "designated foreign country" in Executive Order No. 8389, as amended, in Executive Order No. 9193, as amended, in the Foreign Assets Control Regulations (31 C.F.R., Chapter V, Part 500, as amended), in the Cuban Assets Control Regulations of the United States Treasury Department (31 C.F.R., Chapter V, Part 515, as amended) or in the Regulations of the Office of Alien Property, Department of Justice (8 C.F.R., Chapter II, Part 507, as amended) or within the meanings of any of the said Orders or Regulations, or of any regulations, interpretations, or rulings issued thereunder, or in violation of said Orders or Regulations or of any regulations, interpretations or rulings issued thereunder; or (b) an entity listed in Section 520.101 of the Foreign Funds Control Regulations (31 C.F.R., Chapter V, Part 520, as amended).

Section 5.19. Governmental Regulations. Except for Chapter 399-B of the New Hampshire Revised Statutes Annotated, none of the Borrower, any Subsidiary or any Affiliate of the Borrower is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Investment Company Act of 1940, or is a common carrier under the Interstate Commerce Act, or is engaged in a business or activity subject to any statute or regulation which regulates the incurring by the Borrower of Indebtedness for borrowed money, including statutes or regulations relating to common or contract carriers or to the sale of electricity, gas, steam, water, telephone or telegraph or other public utility services.

Section 5.20. Margin Stock. Neither the Borrower nor any Subsidiary owns any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or any regulations, interpretations or rulings thereunder, nor is the Borrower or any Subsidiary engaged principally or as one of its important activities in extending credit which is used for the purpose of purchasing or carrying margin stock.

ARTICLE 6. REPORTS AND INFORMATION

Section 6.1. Quarterly Financial Statements and Reports. As soon as available, and in any event within forty-five (45) days after the end of each of the first three quarters of each fiscal year of the Borrower, the Borrower shall furnish to the Agent and each Lender: (i) consolidated and consolidating balance sheets of the Borrower and its Subsidiaries as of the end of such quarter and consolidated and consolidating statements of income, shareholders' equity and cash flow of the Borrower and its Subsidiaries for such quarter and for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures for the corresponding period of the preceding fiscal year, all in reasonable detail; and (ii) a Compliance Certificate.

Section 6.2. Annual Financial Statements. As soon as available, but in any event within ninety (90) days after the end of each fiscal year of the Borrower, the Borrower shall furnish to the Agent and each Lender: (a) consolidated and consolidating balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal year and consolidated and consolidating statements of income, shareholders' equity and cash flow of the Borrower and its Subsidiaries for such fiscal year, in each case (other than the consolidating statements) reported on by Deloitte & Touche LLP, or other independent certified public accountants of recognized national standing acceptable to the Lenders, which report shall express, without reliance upon others, a positive opinion regarding the fairness of the presentation of such financial statements in accordance with generally accepted accounting principles consistently applied, except in cases of unresolved litigation and accounting changes with which such accountants concur, together with the statement of such accountants that they have caused the provisions of this Agreement to be reviewed and that nothing has come to their attention to lead them to believe that any Default exists hereunder or specifying any Default and the nature thereof; (b) copies of a budget and strategic plan for the Borrower for the current fiscal year together with management's written discussion and analysis of such budget and strategic plan and shall promptly advise the Agent of any changes therein and all material deviations therefrom; and (c) a Compliance Certificate.

Section 6.3. Notice of Defaults. As soon as possible, and in any event within five (5) days after the occurrence of each Default, the Borrower shall furnish to the Agent and each Lender the statement of its chief executive officer or chief financial officer setting forth details of such Default and the action which the Borrower has taken or proposes to take with respect thereto.

Section 6.4. Notice of Litigation. Promptly after the commencement thereof, the Borrower shall furnish to the Agent and each Lender written notice of all actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting the Borrower or any Subsidiary, which, if adversely determined, would have a Material Adverse Effect.

Section 6.5. Communications with Others. If and when the stock of the Borrower is or is proposed to be traded publicly, the Borrower shall furnish to the Agent and each Lender copies of all regular, periodic and special reports and all registration statements which the Borrower files with the Securities and Exchange Commission or any governmental authority which may be substituted therefor, or with any national or regional securities exchange.

Section 6.6. Reportable Events. At any time that the Borrower or any Subsidiary has a Pension Plan, the Borrower shall furnish to the Agent and each Lender, as soon as possible, but in any event within thirty (30) days after the Borrower knows or has reason to know that any Reportable Event with respect to any Pension Plan has occurred, the statement of its chief executive officer or chief financial officer setting forth the details of such Reportable Event and the action which the Borrower or any Subsidiary has taken or proposes to take with respect thereto, together with a copy of the notice of such Reportable Event to the Pension Benefit Guaranty Corporation.

Section 6.7. Annual Pension Reports. At any time that the Borrower or any Subsidiary has a Pension Plan, the Borrower shall furnish to the Agent and each Lender, promptly after the filing thereof with the Secretary of Labor or the Pension Benefit Guaranty Corporation, copies of each annual report which is filed with respect to each Pension Plan for each plan year, including:

(a) a statement of assets and liabilities of such Pension Plan as of the end of such plan year and statements of changes in fund balance and in financial position, or a statement of changes in net assets available for plan benefits, for such plan year;

(b) an opinion of Deloitte & Touche LLP (or other independent certified public accountants of recognized standing acceptable to the Lender) relating to such Pension Plan to the extent that any such opinion for the Pension Plan is required by law; and

(c) an actuarial statement of such Pension Plan applicable to such plan year, together with an opinion of an enrolled actuary of recognized standing acceptable to the Lenders, to the extent that any such statement and/or opinion for the Pension Plan is required by law.

Section 6.8. Reports to other Creditors. Promptly after filing the same, the Borrower shall furnish to the Agent and each Lender copies of any compliance certificate and other information furnished to any other holder of the securities (including debt obligations) of the Borrower or any Subsidiary pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Agent or the Lenders pursuant to any other provision of this Agreement.

Section 6.9. Communications with Independent Public Accountants. At any reasonable time and from time to time, the Borrower shall provide the Agent and the Lenders and any agents or representatives of the Lenders access to the independent public accountants of the Borrower to discuss the Borrower's and its Subsidiaries' financial condition, including, without limitation any recommendations of such independent public accountants concerning the management, finances, financial controls or operations of the Borrower and its Subsidiaries. Promptly after the receipt thereof, the Borrower shall furnish to the Agent and each Lender copies of any written recommendations concerning the management, finances, financial controls, or operations of the Borrower or any Subsidiary received from the Borrower's independent public accountants.

Section 6.10. Environmental Reports. The Borrower shall furnish to the Agent and each Lender: (a) not later than seven (7) days after notice thereof, notice of any enforcement actions, or, to the knowledge of the Borrower, threatened enforcement actions affecting the Borrower or any Subsidiary by any Governmental Agency related to Environmental Laws; (b) copies, promptly after they are received, of all orders, notices of responsibility, notices of violation, notices of enforcement actions, and assessments, and other written communications pertaining to any such orders, notices, claims and assessments received by the Borrower or any Subsidiary from any Governmental Agency; (c) not later than seven (7) days after notice thereof, notice of any civil claims or threatened civil claims affecting the Borrower or any Subsidiary by any third party alleging any violation of Environmental Laws or harm to human health or the environment; (d) copies of all cleanup plans, site assessment reports, response plans, remedial proposals, or

other submissions of the Borrower or any Subsidiary, other third party (e.g., committee of potentially responsible parties at a Superfund site), or any combination of same, submitted to a Governmental Agency in response to any communication referenced in subsections (a) and (b) herein simultaneously with their submission to such Governmental Agency; and (e) from time to time, on request of the Agent, evidence satisfactory to the Agent of the Borrower's and its Subsidiaries' insurance coverage, if any, for any environmental liabilities.

Section 6.11. Miscellaneous. The Borrower shall provide the Agent and the Lenders with such other information as the Agent or the Lenders may from time to time reasonably request respecting the business, properties, prospects, condition or operations, financial or otherwise, of the Borrower and its Subsidiaries.

ARTICLE 7. FINANCIAL COVENANTS

On and after the date hereof, until all of the Lender Obligations shall have been paid in full and the Lenders shall have no commitment hereunder, the Borrower and its Subsidiaries shall observe the following covenants:

Section 7.1. Consolidated Net Worth. At the end of each period indicated below, the Borrower and its Subsidiaries shall maintain a Consolidated Net Worth of not less than the sums indicated.

| Period: ----- | Minimum Net Worth ----- |
|---|----------------------------|
| Closing Date through March 31, 2000 | \$ 76,000,000 |
| April 1, 2000 through June 30, 2000 | \$ 76,000,000 |
| July 1, 2000 through September 30, 2000 | \$ 76,000,000 |
| October 1, 2000 through December 31, 2000 | \$ 96,000,000 |
| January 1, 2001 through March 31, 2001 | \$ 96,000,000 |
| April 1, 2001 through June 30, 2001 | \$ 96,000,000 |
| July 1, 2001 through September 30, 2001 | \$ 96,000,000 |
| Each Fiscal Quarter Thereafter | \$120,000,000 |

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 |
|---|--------------------|
| ---- | ----- |
| March 31, 2000 | \$16,000,000 |
| June 30, 2000 | \$16,000,000 |
| September 30, 2000 | \$16,000,000 |
| December 31, 2000 | \$20,000,000 |
| March 31, 2001 | \$20,000,000 |
| June 30, 2001 | \$20,000,000 |
| September 30, 2001 | \$20,000,000 |
| On the last day of each Fiscal Quarter Thereafter | \$24,000,000 |

ARTICLE 8. AFFIRMATIVE COVENANTS

On and after the date hereof, until all of the Lender Obligations shall have been paid in full and the Lenders shall have no commitment hereunder, the Borrower covenants that it will, and will cause each of its Subsidiaries to, comply with the following covenants and provisions:

Section 8.1. Existence and Business. The Borrower and each Subsidiary will (a) subject to Section 9.6, preserve and maintain its corporate or limited liability company existence, as the case may be, and qualify and remain qualified as a foreign corporation in each jurisdiction in which such qualification is required, (b) preserve and maintain in full force and effect all material rights, licenses, patents and franchises, (c) comply in all material respects with all valid and applicable statutes, rules and regulations necessary for the conduct of business, and (d) engage only in the businesses which it is conducting on the date of this Agreement and substantially related businesses.

Section 8.2. Taxes and Other Obligations. The Borrower and each Subsidiary (a) will duly pay and discharge, or cause to be paid and discharged, before the same shall become in arrears, all material taxes, assessments and other governmental charges, imposed upon it and its properties, sales and activities, or upon the income or profits therefrom, as well as the claims for labor, materials, or supplies which if unpaid might by law result in a lien or charge upon any of its properties; provided, however, that the Borrower and any Subsidiary may contest any such charges or claims in good faith so long as (i) an adequate reserve therefor has been established and is maintained if and as required by generally accepted accounting principles and (ii) no action to foreclose any such lien has been commenced, and (b) will promptly pay or cause to be paid when due, or in conformance with customary trade terms (but, unless contested in good faith, not later than 60 days from the due date in the case of trade debt), all lease obligations, trade debt and all other Indebtedness incident to its operations. The Borrower and each Subsidiary shall cause all applicable tax returns and all amounts due thereunder to be filed and paid, as the case may be, in order to maintain its good standing with the Internal Revenue Service and state, local and foreign tax authorities.

Section 8.3. Maintenance of Properties and Leases. The Borrower and each Subsidiary shall maintain, keep and preserve all of its properties (tangible and intangible) in good repair and working order, ordinary wear and tear excepted. The Borrower and each Subsidiary shall replace and improve its properties as necessary for the conduct of its business. The Borrower and each Subsidiary shall comply in all material respects with all leases naming it as lessee.

Section 8.4. Insurance. The Borrower and each Subsidiary (a) will keep its principal assets which are of an insurable character insured by financially sound and reputable insurers against loss or damage by fire, explosion or hazards, by extended coverage in an amount sufficient to avoid co-insurance liability, and (b) will maintain with financially sound and reputable insurers insurance against other hazards and risks and liability to persons and property to the extent and in a manner satisfactory to the Lenders, and in any event as customary for companies in similar businesses similarly situated; provided, however, that on prior notice to the Agent and the Lenders it may effect workmen's compensation insurance through an insurance fund operated by such state or jurisdiction and may also be a self-insurer with respect to workmen's compensation and with respect to group medical benefits under any medical benefit plan. On request of the Agent from time to time, the Borrower will render to the Agent and the Lenders a statement in reasonable detail as to all insurance coverage required by this Section 8.4. A description of the material elements of insurance coverage of the Borrower and its Subsidiaries as of the date hereof is set forth on Schedule 8.4.

Section 8.5. Records, Accounts and Places of Business. The Borrower and each Subsidiary shall maintain comprehensive and accurate records and accounts in accordance with generally accepted accounting principles consistently applied. The Borrower and each Subsidiary shall maintain adequate and proper reserves. The Borrower and each Subsidiary shall promptly notify the Agent of (a) any changes in the places of business of the Borrower and its Subsidiaries and (b) any additional places of business which may arise hereafter.

Section 8.6. Inspection. At any reasonable time and from time to time, the Borrower shall permit the Agent and the Lenders and any of the Lenders' agents or representatives to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and its Subsidiaries and to discuss the affairs, finances and accounts of the Borrower and its Subsidiaries with any of their officers or directors and with the Borrower's independent accountants.

Section 8.7. Maintenance of Accounts. The Borrower and its Subsidiaries shall maintain all of their depository, operating, concentration and disbursement accounts with the Agent, provided that an amount not to exceed \$1,000,000 may be on deposit at certain depository and operating accounts of Comteq which are maintained at Bank of America (or one of its affiliates).

Section 8.8 Year 2000 Compatibility. Take all reasonable action necessary to assure that its computer based systems, hardware and software used in each of the Borrower's and its Subsidiaries' business and operations are able to operate and effectively receive transmit, process, store, retrieve or retransmit data including dates on and after January 1, 2000, and, at the

request of the Agent, the Borrower shall provide evidence to the reasonable satisfaction of the Agent of such year 2000 compatibility.

ARTICLE 9. NEGATIVE COVENANTS

On and after the date hereof, until all of the Lender Obligations shall have been paid in full and the Lenders shall have no commitments to make any loans or advances to the Borrower hereunder, the Borrower covenants that neither the Borrower nor any of its Subsidiaries will:

Section 9.1. Restrictions on Indebtedness. Create, incur, suffer or permit to exist, or assume or guarantee, either directly or indirectly, or otherwise become or remain liable with respect to, any Indebtedness, except the following:

(a) Indebtedness outstanding at the date of this Agreement as set forth on Schedule 5.16 but no refinancings thereof.

(b) Indebtedness on account of Consolidated Current Liabilities (other than for money borrowed) incurred in the normal and ordinary course of business.

(c) Indebtedness in respect of (i) taxes, assessments, governmental charges or levies and claims for labor, materials and supplies to the extent that payment thereof shall not at the time be required to be made in accordance with the provisions of Section 8.2 hereof, (ii) judgments or awards which have been in force for less than the applicable appeal period so long as execution is not levied thereunder or in respect of which the Borrower or any Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review in a manner satisfactory to the Lenders and in respect of which a stay of execution shall have been obtained pending such appeal or review and for which adequate reserves have been established in accordance with generally accepted accounting principles, and (iii) endorsements made in connection with the deposit of items for credit or collection in the ordinary course of business.

(d) Indebtedness in an amount not to exceed \$1,000,000 in respect of purchase money security interests under Section 9.2(b) hereof.

(e) Indebtedness in an amount not to exceed \$10,000,000 in the aggregate with respect to equipment financing and Capitalized Leases, or as otherwise approved by the Agent.

(f) Indebtedness to the Lenders.

(g) Indebtedness on account of inventory financed by IBM Credit Corp. and Deutsche Financial Services Corporation not to exceed \$60,000,000 without the written consent of the Agent.

(h) Guarantees permitted under Section 9.5 hereof.

(i) Indebtedness between the Borrower and any Subsidiaries or between Subsidiaries.

Section 9.2. Restriction on Liens. Create or incur or suffer to be created or incurred or to exist any encumbrance, mortgage, pledge, lien, charge or other security interest of any kind upon any of its property or assets of any character, whether now owned or hereafter acquired, or transfer any of such property or assets for the purposes of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors, or acquire or agree or have an option to acquire any property or assets upon conditional sale or other title retention agreement, device or arrangement (including Capitalized Leases) or suffer to exist for a period of more than 30 days after the same shall have been incurred any Indebtedness against it which if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over the claims of its general creditors, or sell, assign, pledge or otherwise transfer for security any of its accounts, contract rights, general intangibles, or chattel paper (as those terms are defined in the UCC) with or without recourse; provided, however, that the Borrower or any Subsidiary may create or incur or suffer to be created or incurred or to exist:

(a) Existing liens and security interests described in Schedule 5.13 securing presently outstanding Indebtedness permitted by Section 9.1(a).

(b) Purchase money security interests (which term shall include mortgages, conditional sale contracts, Capitalized Leases in accordance with Section 9.1(e) hereof, and all other title retention or deferred purchase devices) to secure the purchase price of property acquired hereafter by the Borrower or a Subsidiary, or to secure Indebtedness incurred solely for the purpose of financing such acquisitions; provided, however, that no such purchase money security interests shall extend to or cover any property other than the property the purchase price of which is secured by it, and that the principal amount of Indebtedness (whether or not assumed) with respect to each item of property subject to such a security interest shall not exceed the fair value of such item on the date of its acquisition.

(c) Deposits or pledges made in connection with, or to secure payment of, workmen's compensation, unemployment insurance, old age pensions or other social security; liens in respect of judgments or awards to the extent such judgments or awards are permitted as Indebtedness by the provisions of Section 9.1(c); and liens for taxes, assessments or governmental charges or levies and liens to secure claims for labor, material or supplies to the extent that payment thereof shall not at the time be required to be made in accordance with Section 8.2.

(d) Encumbrances in the nature of zoning restrictions, easements, and rights or restrictions of record on the use of real property which do not materially detract from the value of such property or impair its use in the business of the owner or lessee.

(e) Liens (other than judgments and awards) created by or resulting from any litigation or legal proceeding, provided the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being actively contested in good faith by appropriate proceedings satisfactory to the Agent.

(f) Liens arising by operation of law to secure landlords, lessors or renters under leases or rental agreements made in the ordinary course of business and confined to the premises or property rented.

(g) Liens in favor of the Agent for the benefit of the Lenders.

(h) Liens on inventory in accordance with Section 9.1(g) hereof.

Nothing contained in this Section 9.2 shall permit the Borrower to incur any Indebtedness or take any other action or permit to exist any other condition which would be in contravention of any other provision of this Agreement.

Section 9.3. Investments. Have outstanding or hold or acquire or make or commit itself to acquire or make any Investment except the following:

(a) Investments having a maturity of less than one year from the date thereof by the Borrower in: (i) obligations of the Agent or any of the Lenders; (ii) obligations of the United States of America or any agency or instrumentality thereof; (iii) repurchase agreements involving securities described in clauses (i) and (ii) with the Agent or any of the Lenders; and (iv) commercial paper which is rated not less than prime-one or A-1 or their equivalents by Moody's Investor Service, Inc. or Standard & Poor's Corporation, respectively, or their successors.

(b) Investments between the Borrower and any of its Subsidiaries and between any Subsidiaries.

(c) Investments consisting of normal travel and similar advances to employees of the Borrower and its Subsidiaries and advances with respect to a computer purchase program to employees of the Borrower and its Subsidiaries not exceeding \$750,000 in the aggregate at any one time outstanding.

(d) Investments resulting from mergers permitted under Section 9.6 hereto.

(e) Permitted Acquisitions financed with Permitted Acquisition Advances.

(f) Investments in Subsidiaries permitted under Sections 9.8(i) and 9.11 hereto.

Section 9.4. Dispositions of Assets. Sell, lease or otherwise dispose of any assets except for (i) the sale, lease or other disposition of inventory or other property (not including receivables) in the ordinary course of business or (ii) the sale or other disposition of any assets as permitted under Section 9.9 hereof.

Section 9.5. Assumptions, Guaranties, Etc. of Indebtedness of Other Persons. Assume, guarantee, endorse or otherwise be or become directly or contingently liable (including, without limitation, by way of agreement, contingent or otherwise, to purchase, provide funds for payment, supply funds to or otherwise invest in any Person or otherwise assure the creditors of any such Person against loss) in connection with any Indebtedness of any other Person, except (i) for Guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business and (ii) Guarantees to IBM or DFS in connection with Indebtedness permitted under 9.1(g).

Section 9.6. Mergers, Etc. Enter into any merger or consolidation with or acquire all or substantially all of the assets of any Person, or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any Person, except that (a) any Subsidiary may merge into the Borrower or any other Subsidiary, (b) the Borrower and any Subsidiary may enter into a merger with or acquire all or substantially all of the assets of another entity, provided that immediately after and giving effect thereto, no event shall occur and be continuing which constitutes or which, upon the passage of time or giving of notice or both would constitute, a Default (including under Section 8.1 and including under Article 7, assuming that the financial restrictions set forth in Article 7 are applied immediately after and giving effect to such merger or acquisition) and provided further that the Borrower or such Subsidiary is the surviving corporation to any such merger and (c) the Borrower may enter into Permitted Acquisitions.

Section 9.7. ERISA. At any time while the Borrower or any Subsidiary has a Pension Plan, permit any accumulated funding deficiency to occur with respect to any Pension Plan or other employee benefit plans established or maintained by the Borrower or any Subsidiary or to which contributions are made by the Borrower or any Subsidiary (the "Plans"), and which are subject to the "Pension Reform Act" and the rules and regulations thereunder or to Section 412 of the Internal Revenue Code, and at all times comply in all material respects with the provisions of the Act and Code which are applicable to the Plans. The Borrower will not permit the Pension Benefit Guaranty Corporation to cause the termination of any Pension Plan under circumstances which would cause the lien provided for in Section 4068 of the Pension Reform Act to attach to the assets of the Borrower or any Subsidiary.

Section 9.8. Distributions. Make any Distribution or make any other payment on account of the purchase, acquisition, redemption, or other retirement of any shares of stock, whether now or hereafter outstanding, other than (i) repurchase or redemption of Borrower's capital stock not to exceed \$5,000,000 and (ii) any Subsidiary may make a Distribution to the Borrower.

Section 9.9. Sale and Leaseback. Sell or transfer any of its properties with the intention of taking back a lease of the same property or leasing other property for substantially the same use as the property being sold or transferred, except in connection with financings permitted under Section 9.1(d) and (e).

Section 9.10. Transactions with Affiliates. Enter into any transaction, including, without limitation, the purchase, sale or exchange of property or the rendering of any service, with any Affiliate, except that the Borrower and its Subsidiaries (a) may pay salaries, fees and bonuses to its directors, officers and employees as are usual and customary in the Borrower's or its Subsidiaries' business and (b) may, in the ordinary course of business, enter into other transactions with Affiliates on terms that are no less favorable to the Borrower or any Subsidiary than those which could be obtained at the time from Persons who are not Affiliates.

Section 9.11. Creation of Subsidiaries. Borrower shall not, without prior written consent by Agent, create or cause the creation of any Subsidiary other than those in existence at the Closing, unless such Subsidiary becomes an additional guarantor ("Additional Guarantor") under the Guaranty Agreement.

Section 9.12. Voluntary Payment. While any amount remains outstanding under the Notes, Borrower shall not make any voluntary prepayments on any Indebtedness, except under a Lender Agreement or Indebtedness permitted under Section 9.1(g) hereof.

ARTICLE 10. EVENTS OF DEFAULT AND REMEDIES

Section 10.1. Events of Default. Each of the following events shall be deemed to be Events of Default hereunder:

(a) The Borrower shall fail to make any payment in respect of (i) the principal of any of the Lender Obligations as the same shall become due, whether at the stated payment dates, required prepayment or by acceleration, demand or otherwise, or (ii) interest or commitment fees on or in respect of any of the Lender Obligations as the same shall become due.

(b) The Borrower or any Subsidiary shall fail to perform or observe any of the terms, covenants, conditions or provisions of Articles 6, 7, 8 or 9 hereof.

(c) The Borrower or any Subsidiary shall fail to perform or observe any other term, covenant, condition or provision to be performed or observed by the Borrower under this Agreement or any other Lender Agreement, and such failure shall not be rectified or cured to the Agent's satisfaction within thirty (30) days after the occurrence thereof.

(d) Any representation or warranty of the Borrower herein or in any other Lender Agreement or any amendment to any thereof shall have been materially false or misleading at the time made or intended to be effective.

(e) The Borrower shall fail to make any payment of principal of or interest on Indebtedness for money borrowed by the Borrower or any Guaranty of money borrowed, in either case an outstanding principal amount of not less than \$1,000,000, when such payment is due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) or

shall fail to perform or observe any provision of any agreement or instrument relating to such Indebtedness, and such failure shall permit the holder thereof to accelerate such Indebtedness.

(f) The Borrower or any Subsidiary shall be involved in financial difficulties as evidenced:

(i) by its commencement of a voluntary case under Title 11 of the United States Code as from time to time in effect, or by its authorizing, by appropriate proceedings of its board of directors or other governing body, the commencement of such a voluntary case;

(ii) by its filing an answer or other pleading admitting or failing to deny the material allegations of a petition filed against it commencing an involuntary case under said Title 11, or seeking, consenting to or acquiescing in the relief therein provided, or by its failing to controvert timely the material allegations of any such petition;

(iii) by the entry of an order for relief in any involuntary case commenced under said Title 11;

(iv) by its seeking relief as a debtor under any applicable law, other than said Title 11, of any jurisdiction relating to the liquidation or reorganization of debtors or to the modification or alteration of the rights of creditors, or by its consenting to or acquiescing in such relief;

(v) by the entry of an order by a court of competent jurisdiction (1) by finding it to be bankrupt or insolvent, (2) ordering or approving its liquidation, reorganization or any modification or alteration of the rights of its creditors, or (3) assuming custody of, or appointing a receiver or other custodian for all or a substantial part of its property and such order shall not be vacated or stayed on appeal or otherwise stayed within 30 days;

(vi) by the filing of a petition against the Borrower or any Subsidiary under said Title 11 which shall not be vacated within 30 days; or

(vii) by its making an assignment for the benefit of, or entering into a composition with, its creditors, or appointing or consenting to the appointment of a receiver or other custodian for all or a substantial part of its property.

(g) There shall have occurred a judgment against the Borrower or any Subsidiary in any court (i) for an amount in excess of \$1,000,000, and from which no appeal has been taken or with respect to which all appeal periods have expired, unless such judgment is, to the Agent's satisfaction, insured against in full, or (ii) which shall have a materially adverse effect upon the assets, properties or condition, financial or otherwise, of the Borrower.

(h) Any "Event of Default" under any other Lender Agreement shall have occurred.

Section 10.2. Remedies. Upon the occurrence of an Event of Default, in each and every case, the Agent may, and upon the request of the Required Lenders, shall proceed to protect and enforce the rights of the Agent and the Lenders by suit in equity, action at law and/or other appropriate proceeding either for specific performance of any covenant or condition contained in this Agreement or any other Lender Agreement or in any instrument delivered to the Agent or the Lenders pursuant hereto or thereto, or in aid of the exercise of any power granted in this Agreement, any Lender Agreement or any such instrument, and (unless there shall have occurred an Event of Default under Section 10.1(f), in which case the unpaid balance of Lender Obligations shall automatically become due and payable without notice or demand) by notice in writing to the Borrower declare (a) the obligations of the Lenders to make Advances to be terminated, whereupon such obligations shall be terminated, and (b) all or any part of the unpaid balance of the Lender Obligations then outstanding to be forthwith due and payable, whereupon such unpaid balance or part thereof shall become so due and payable without presentation, protest or further demand or notice of any kind, all of which are hereby expressly waived, and the Agent may proceed to enforce payment of such balance or part thereof in such manner as the Agent may elect, and the Agent and each Lender may offset and apply toward the payment of such balance or part thereof any Indebtedness of the Agent or any Lender to the Borrower or to any Subsidiary, or to any obligor of the Lender Obligations, including any Indebtedness represented by deposits in any general or special account maintained with the Agent or any Lender or with any other Person controlling, controlled by or under common control with the Agent or any Lender.

Section 10.3. Distribution of Proceeds. Notwithstanding anything to the contrary contained herein, in the event that following the occurrence or during the continuance of any Event of Default, the Agent or any Lender receives any monies on account of the Lender Obligations from the Borrower or otherwise, such monies shall be distributed for application as follows:

(a) First, to the payment of or the reimbursement of, the Agent for or in respect of all costs, expenses, disbursements and losses which shall have been incurred or sustained by the Agent in connection with the collection of such monies by the Agent, or in connection with the exercise, protection or enforcement by the Agent of all or any of the rights, remedies, powers and privileges of the Agent or the Lenders under this Agreement or any other Lender Agreement;

(b) Second, to the payment of all interest, including interest on overdue amounts, and late charges, then due and payable with respect to the Loans, allocated among the Lenders in proportion to their respective Commitment Percentages;

(c) Third, to the payment of the outstanding principal balance of the Loans, allocated among the Lenders in proportion to their respective Commitment Percentages;

(d) Fourth, to any other outstanding Lender Obligations, allocated among the Lenders in proportion to their respective Commitment Percentages; and

(e) Fifth, the excess, if any, shall be returned to the Borrower or to such other Persons as are entitled thereto.

ARTICLE 11. CONSENTS; AMENDMENTS; WAIVERS; REMEDIES

Section 11.1. Actions by Lenders. Except as otherwise expressly set forth in any particular provision of this Agreement, any consent or approval required or permitted by this Agreement to be given by the Lenders, including without limitation under Section 11.2, may be given, and any term of this Agreement or of any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrower and the Required Lenders; provided, however, that without the written consent of all Lenders:

(a) no reduction in the interest rates on or any fees relating to the Advances shall be made;

(b) no extension or postponement shall be made of the stated time of payment of the principal amount of, interest on, or fees payable to the Lenders relating to the Advances;

(c) no increase in the Maximum Credit Amount, or extension of the Credit Termination Date shall be made;

(d) no release of all or substantially all of the collateral security for the Lender Obligations or of the obligations of any Guarantor under the Guaranty Agreement shall be made;

(e) no change in the definition of the term "Required Lenders" shall be made; and

(f) no change in the provisions of this Section 11.1 shall be made.

Section 11.2. Actions by Borrower. No delay or omission on the Agent's or the Lenders' part in exercising their rights and remedies against the Borrower or any other interested party shall constitute a waiver. A breach by the Borrower of its obligations under this Agreement may be waived only by a written waiver executed by the Agent and the Lenders in accordance with Section 11.1. The Agent's and the Lenders' waiver of the Borrower's breach in one or more instances shall not constitute or otherwise be an implicit waiver of subsequent breaches. To the extent permitted by applicable law, the Borrower hereby agrees to waive, and does hereby absolutely and irrevocably waive (a) all presentments, demands for performance, notices of protest and notices of dishonor in connection with any of the Indebtedness evidenced by the Term Notes, (b) any requirement of diligence or promptness on the Agent's or the Lenders' part in the enforcement of its rights under the provisions of this Agreement or any Lender Agreement,

and (c) any and all notices of every kind and description which may be required to be given by any statute or rule of law with respect to its liability (i) under this Agreement or in respect of the Indebtedness evidenced by the Notes or any other Lender Obligation or (ii) under any other Lender Agreement. No course of dealing between the Borrower and the Agent or the Lenders shall operate as a waiver of any of the Agent's or the Lenders' rights under this Agreement or any Lender Agreement or with respect to any of the Lender Obligations. This Agreement shall be amended only by a written instrument executed by the Borrower, the Agent and the Lenders in accordance with Section 11.1 making explicit reference to this Agreement. The Agent's and the Lenders' rights and remedies under this Agreement and under all subsequent agreements between the Agent, the Lenders and the Borrower shall be cumulative and any rights and remedies expressly set forth herein shall be in addition to, and not in limitation of, any other rights and remedies which may be applicable to the Agent and the Lenders in law or at equity.

ARTICLE 12. SUCCESSORS AND ASSIGNS

Section 12.1. General. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors (which shall include in the case of the Agent or any Lender any entity resulting from a merger or consolidation) and assigns, except that (a) the Borrower may not assign its rights or obligations under this Agreement, and (b) each Lender may assign its rights in this Agreement only as set forth below in this Article 12.

Section 12.2. Assignments.

(a) Assignments. In compliance with applicable laws with respect to such assignment and with the consent of the Borrower (provided that if there shall exist a Default, the Borrower's consent shall not be required for any such assignment) and the Agent (which consents in all cases shall not be unreasonably withheld), a Lender may assign to one or more financial institutions (each a "Successor Lender") a proportionate part of its rights and obligations in connection with this Agreement, its Note, and the related Lender Agreements and each such Successor Lender shall assume such rights and obligations pursuant to an Assignment and Acceptance Agreement ("Assignment and Acceptance Agreement") duly executed by such Successor Lender and such assigning Lender and acknowledged and consented to by the Agent, substantially in the form of Exhibit H attached hereto; provided; however, if Agent assigns more than fifty percent of the Agent's Commitment Percentage listed on Schedule 1 as of the Closing Date, the Required Lenders may request replacement of the Agent in accordance with Section 13.8 hereunder. Any assignment under this Section (a) shall be in a minimum amount of \$5,000,000. In connection with any assignment under this Section 12.2(a) there shall be paid to the Agent by the assigning Lender or the Successor Lender an administrative processing fee in the amount of \$5,000; provided, however, that no such administrative processing fee shall be paid if the Lender or Successor Lender makes an assignment to an affiliate of such Lender or Successor Lender.

(b) Assignment Procedures. In the event of an assignment in accordance with Section 12.2(a), upon execution and delivery of such an assignment at least five (5) Business

Days prior to the proposed assignment date, and payment by such Successor Lender to the assigning Lender of an amount equal to the purchase price agreed between such assigning Lender and such Successor Lender, such Successor Lender shall become party to this Agreement as a signatory hereto and shall have all the rights and obligations of a Lender under this Agreement and the other Lender Agreements with an interest therein as set forth in such assignment, and such assignor making such assignment shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any such assignment, the assigning Lender, the Successor Lender and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to the Successor Lender and a replacement Note is issued to the assigning Lender in principal amounts reflecting their respective revised interests.

(c) Register. The Agent shall maintain a register (the "Register") for the recordation of (i) the names and addresses of all Successor Lenders that enter into Assignment and Acceptance Agreements, (ii) the interests of each Lender, and (iii) the amounts of the Advances owing to each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is registered therein for all purposes as a party to this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Further Assurances. The Borrower shall sign such documents and take such other actions from time to time reasonably requested by the Agent or a Lender to enable any Successor Lender to share in the benefits and rights created by the Lender Agreements.

(e) Assignments to Federal Reserve Bank. Any Lender at any time may assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank. No such assignment shall release the transferor Lender from its obligations hereunder.

Section 12.3. Participations. Any Lender may, with the consent of Agent and without the consent of the Borrower, at any time grant or offer to grant to one or more financial institutions ("Credit Participants") participating interests in such Lender's rights and obligations in this Agreement, its Notes and the related Lender Agreements, and each such Credit Participant shall acquire such participation subject to the terms set forth below.

(a) Amount. Each such participation shall be in a minimum amount of at least \$5,000,000.

(b) Procedure. Each Lender granting such participation shall comply with all applicable laws with respect to such transfer and shall remain responsible for the performance of its obligations hereunder and under the other Lender Agreements and shall retain the sole right and responsibility to exercise its rights and to enforce the obligations of the Borrower hereunder and under the other Lender Agreements, including the right to consent to any amendment, modification or waiver of any provision of any Lender Agreement, except for those matters

referred to in Section 11.1 which require the consent of all Lenders and which may also require the consent of each Credit Participant.

(c) Dealing with Lenders. The Borrower shall continue to deal solely and directly with the Lenders in connection with their rights and obligations under this Agreement and the other Lender Agreements.

(d) Rights of Credit Participants. The Borrower agrees that each Credit Participant shall, to the extent provided in its participation instrument, be entitled to the benefits of Sections 2.7, 2.8, 2.9, 2.11, 2.12, and 14.5, and the setoff rights in Section 10.2 with respect to its participating interest; provided, however, that no Credit Participant shall be entitled to receive any greater payment under such Sections than the Lender granting such participation would have been entitled to receive with respect to the interests transferred.

(e) Notice. At the time of granting any participation, the Lender granting such participation shall notify the Agent and the Borrower.

(f) New Hampshire and Massachusetts Law. The Agent shall execute all certificates as it may deem reasonably necessary for the granting of the participation under the laws of the State of New Hampshire and The Commonwealth of Massachusetts.

ARTICLE 13. THE AGENT

Section 13.1. Authorization and Action. Each Lender hereby appoints and authorizes the Agent to take such action on its behalf and to exercise such powers under this Agreement and the other Lender Agreements as are delegated to the Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement and the other Lender Agreements (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders; provided, however, that the Agent shall not be required to take any action which exposes the Agent to liability or which is contrary to this Agreement or the other Lender Agreements or applicable law. Subject to the foregoing provisions and to the other provisions of this Article 13, the Agent shall, on behalf of the Lenders: (a) execute any documents on behalf of the Lenders providing collateral for or guarantees of the Lender Obligations; (b) hold and apply any collateral for the Lender Obligations, and the proceeds thereof, at any time received by it, in accordance with the provisions of this Agreement and the other Lender Agreements; (c) exercise any and all rights, powers and remedies of the Lenders under this Agreement or any of the other Lender Agreements, including the giving of any consent or waiver or the entering into of any amendment, subject to the provisions of Section 11.1; (d) at the direction of the Lenders, execute, deliver and file UCC financing statements, mortgages, deeds of trust, lease assignments and such other agreements in respect of any collateral for the Lender Obligations, and possess instruments included in the collateral on behalf of the Lenders; and (e) in the event of acceleration of the Borrower's Indebtedness hereunder, act at the direction of the Required Lenders to exercise the rights of the Lenders hereunder and under the other Lender Agreements.

Section 13.2. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Lenders for any action taken or omitted to be taken by it or them under or in connection with this Agreement or the other Lender Agreements, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (a) may treat the payee of any Note as the holder thereof until the Agent receives written notice of the assignment or transfer thereof signed by such payee and in form required under Article 12 hereof; (b) may consult with legal counsel, independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representations to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with this Agreement or the other Lender Agreements; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or the other Lender Agreements on the part of the Borrower or any other Person or to inspect the property (including the books and records) of the Borrower or any other Person; (e) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Lender Agreements or any other instrument or document furnished pursuant hereto or thereto; and (f) shall incur no liability under

or in respect of this Agreement or the other Lender Agreements by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopy or telegram) believed by the Agent to be genuine and signed or sent by the proper party or parties.

Section 13.3. Agent as a Lender. With respect to its interest in the Commitment Percentage of the Advances hereunder, Citizens Bank of Massachusetts shall have the same rights and powers under this Agreement and the other Lender Agreements as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lender(s)" shall, unless otherwise expressly indicated, include Citizens Bank of Massachusetts in its individual capacity. Citizens Bank of Massachusetts and its affiliates may lend money to, and generally engage in any kind of business with, the Borrower, any of the Borrower's Affiliates and any Person who may do business with or own securities of the Borrower or any such Affiliate of the Borrower, all as if Citizens Bank of Massachusetts were not the Agent and without any duty to account therefor to the Lenders.

Section 13.4. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 5.9 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

Section 13.5. Indemnification of Agent. Each Lender agrees to indemnify the Agent and its directors, officers, employees and agents (to the extent that the Agent is not reimbursed by the Borrower), ratably according to each Lender's Commitment Percentage, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Agent or its directors, officers, employees or agents in any way relating to or arising out of this Agreement or any other Lender Agreement or any action taken or omitted by the Agent in such capacity under this Agreement; provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or wilful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement and each other Lender Agreement, to the extent that the Agent is not reimbursed for such expenses by the Borrower.

Section 13.6. Successor Agent. Except as provided below, the Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower. Upon any such resignation, the Lenders shall have the right to appoint a successor Agent (the "Successor Agent") which, absent the existence of a default, shall be reasonably acceptable to the Borrower.

If no Successor Agent shall have been so appointed by the Lenders (other than the resigning Agent), and shall have accepted such appointment, within thirty (30) days after the retiring Agent's giving notice of resignation, then the retiring Agent may, on behalf of the Lenders, appoint a Successor Agent which, absent the existence of a default, shall be reasonably acceptable to Borrower, which shall be a commercial bank or financial institution organized under the laws of the United States of America or of any state thereof and having a combined capital and surplus of at least \$50,000,000. Upon the acceptance of any appointment as Agent hereunder by a Successor Agent, such Successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement and the other Lender Agreements. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article 13 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement and the other Lender Agreements.

Section 13.7. Amendment of Article 13. The Borrower hereby agrees that the foregoing provisions of this Article 13 constitute an agreement among the Agent and the Lenders (and the Agent and the Lenders acknowledge that except for the provisions of Section 13.6, the Borrower is not a party to or bound by such foregoing provisions) and that any and all of the provisions of this Article 13, with the exception of the reasonable approval of Borrower as may be required under Section 13.6 hereto, may be amended at any time by the Lenders without the consent or approval of, or notice to, the Borrower (other than the requirement of notice to the Borrower of the resignation of the Agent and the appointment of a successor Agent).

Section 13.8. Replacement of Agent Upon Assignment of Majority of Commitment Percentage. If Agent assigns more than fifty percent of Agent's Commitment Percentage Interest listed on Schedule 1 as of the Closing Date (in accordance with the provisions of Section 12.2 hereunder) the Lenders can request the appointment of a Successor Agent, with the consent of the Borrower. If such Successor Agent is to be appointed under this Section 13.8, such Successor Agent and the process of electing it shall be governed by Section 13.6 regarding Successor Agents.

ARTICLE 14. MISCELLANEOUS

Section 14.1. Notices. All notices and other communications made or required to be given pursuant to this Agreement shall be in writing and shall be mailed by United States mail, postage prepaid, or sent by hand, by telecopy or by nationally-recognized overnight carrier service, addressed as follows:

(a) If to the Agent, at _____, with a copy to: Goodwin, Procter & Hoar LLP, Exchange Place, Boston, MA 02109, Telecopier No. 617-523-1231, Attention: Steven M. Ellis, P.C. or at such other address(es) or to the attention of such other Person(s) as the Agent shall from time to time designate in writing to the Borrower and the Lenders.

(b) If to the Borrower, at Route 101A (730 Milford Road), Merrimack, NH 03054, Telecopier No. 603-423-2192, Attention: Mark Gavin, with a copy to Hale and Dorr LLP,

60 State Street, Boston, MA 02109. Telecopier No. 617-526-5000, Attn: Jay Bothwick, Esquire, or at such other address(es) or to the attention of such other Person(s) as the Borrower shall from time to time designate in writing to the Agent and the Lenders.

(c) If to any Lender, at the address(es) and to the attention of the Person(s) specified below such Lender's name on the execution page of this Agreement (or in the case of a Successor Lender, at the address(es) and to the attention of the Person(s) specified in the Assignment and Acceptance Agreement executed by such Successor Lender), or at such other address(es) and to the attention of such other Person(s) as any Lender shall from time to time designate in writing to the Agent and the Borrower.

Any notice so addressed and mailed by registered or certified mail shall be deemed to have been given when mailed. Any notice so addressed and sent by hand, by telecopy or by overnight carrier service shall be deemed to have been given when received.

A notice from the Agent stating that it has been given on behalf of the Lenders shall be relied upon by the Borrower as having been given by the Lenders.

Section 14.2. Merger. This Agreement and the other Lender Agreements and documents contemplated hereby constitute the entire agreement of the Borrower and the Agent and the Lenders and express their entire understanding with respect to credit advanced or to be advanced by the Lenders to the Borrower.

Section 14.3. Governing Law; Consent to Jurisdiction. This Agreement shall be governed by and construed and enforced under the laws of The Commonwealth of Massachusetts. The Borrower and each Subsidiary hereby irrevocably submits itself to the non-exclusive jurisdiction of the courts of The Commonwealth of Massachusetts and to the non-exclusive jurisdiction of any Federal court of the United States located in the District of Massachusetts for the purpose of any suit, action or other proceeding arising out of this Agreement or any other Lender Agreement or any of the transactions contemplated hereby or thereby.

Section 14.4. Counterparts. This Agreement and all amendments to this Agreement may be executed in several counterparts, each of which shall be an original. The several counterparts shall constitute a single Agreement.

Section 14.5. Expenses and Indemnification.

(a) The Borrower agrees to pay, on demand, all of the Agent's reasonable expenses in preparing, executing, delivering and administering this Agreement, the Lender Agreements and all related instruments and documents, including, without limitation, the reasonable fees and out-of-pocket expenses of the Agent's special counsel, Goodwin, Procter & Hoar LLP, and, absent the existence of a default, up to an amount of \$1,500 annually, the Agent's and Lenders' expenses in connection with periodic audits of the Borrower. The Borrower also agrees to pay, on demand, all reasonable out-of-pocket expenses incurred by the Agent and the Lenders, including, without limitation, reasonable legal and accounting fees, in connection with the collection of amounts due hereunder and under all other Lender Agreements upon the occurrence of an Event of Default hereunder, the revision, protection or enforcement of any of the Agent's or the Lenders' rights against the Borrower under this Agreement, the Notes and all other Lender Agreements and the administration of special problems that may arise under this Agreement or any other Lender Agreement. The Borrower also agrees to pay all stamp and other taxes in connection with the execution and delivery of this Agreement and related instruments and documents.

(b) Without limitation of any other obligation or liability of the Borrower or right or remedy of the Agent or the Lenders contained herein, the Borrower hereby covenants and agrees to indemnify and hold the Agent, the Lenders, and the directors, officers, subsidiaries, shareholders, agents, affiliates and Persons controlling the Agent and the Lenders, harmless from and against any and all damages, losses, settlement payments, obligations, liabilities, claims, including, without limitation, claims for finder's or broker's fees, actions or causes of action, and reasonable costs and expenses incurred, suffered, sustained or required to be paid by any such indemnified party in each case by reason of or resulting from any claim relating to the transactions contemplated hereby, other than any such claims which are determined by a final, non-appealable judgment or order of a court of competent jurisdiction to be the result of the gross negligence or willful misconduct of such indemnified party. Promptly upon receipt by any indemnified party hereunder of notice of the commencement of any action against such indemnified party for which a claim is to be made against the Borrower hereunder, such indemnified party shall notify the Borrower in writing of the commencement thereof, although the failure to provide such notice shall not affect the indemnification rights of any such indemnified party hereunder. The Borrower shall have the right, at its option upon notice to the indemnified parties, to defend any such matter at its own expense and with its own counsel, except as provided below, which counsel must be reasonably acceptable to the indemnified parties. The indemnified party shall cooperate with the Borrower in the defense of such matter. The indemnified party shall have the right to employ separate counsel and to participate in the defense of such matter at its own expense. In the event that (a) the employment of separate counsel by an indemnified party has been authorized in writing by the Borrower, (b) the Borrower has failed to assume the defense of such matter within fifteen (15) days of notice thereof from the indemnified party, or (c) the named parties to any such action (including impleaded parties) include any indemnified party who has been advised by counsel that there may be one or more legal defenses available to it or prospective bases for liability against it, which are different from those available to or against the Borrower, then the Borrower shall not

have the right to assume the defense of such matter with respect to such indemnified party. The Borrower shall not compromise or settle any such matter against an indemnified party without the written consent of the indemnified party, which consent may not be unreasonably withheld or delayed.

Section 14.6. Confidentiality. The Agent and the Lenders agree to use commercially reasonable efforts to keep in confidence all financial data and other information relative to the affairs of the Borrower and its Subsidiaries heretofore furnished or which may hereafter be furnished to them pursuant to the provisions of this Agreement; provided, however, that this Section 14.6 shall not be applicable to information otherwise disseminated to the public by the Borrower or any of its Affiliates; and provided further, however, that such obligation of the Agent and the Lenders shall be subject to the Agent's or the Lenders', as the case may be, (a) obligation to disclose such information pursuant to a request or order under applicable laws and regulations or pursuant to a subpoena or other legal process, (b) right to disclose any such information to bank examiners, affiliates, auditors, accountants and counsel who agree to keep such information confidential, and (c) right to disclose any such information (i) in connection with the transactions set forth herein including assignments or the sale of participation interests pursuant to Article 12, so long as such potential assignees or participants shall agree in writing to be bound by the terms of this Section 14.6, or (ii) in connection with any litigation or dispute involving the Agent or any transfer or other disposition by the Agent or the Lenders, as the case may be, of any of the Lender Obligations; provided that information disclosed pursuant to this provision shall be so disclosed subject to such procedures as are reasonably calculated to maintain the confidentiality thereof.

Section 14.7. WAIVER OF JURY TRIAL. THE AGENT, THE LENDERS AND THE BORROWER AGREE THAT NONE OF THEM NOR ANY ASSIGNEE OR SUCCESSOR SHALL (A) SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM OR ANY OTHER ACTION BASED UPON OR ARISING OUT OF, THIS AGREEMENT, NOTES, ANY LENDER AGREEMENT, ANY RELATED INSTRUMENTS, ANY COLLATERAL OR THE DEALINGS OR THE RELATIONSHIP BETWEEN OR AMONG ANY OF THEM, OR (B) SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS PARAGRAPH HAVE BEEN FULLY DISCUSSED BY EACH OF THE AGENT, THE LENDERS AND THE BORROWER WITH THEIR RESPECTIVE COUNSEL, AND THESE PROVISIONS SHALL BE SUBJECT TO NO EXCEPTIONS. NONE OF THE AGENT, THE LENDERS OR THE BORROWER HAS AGREED WITH OR REPRESENTED TO ANY OTHER PARTY THAT THE PROVISIONS OF THIS PARAGRAPH WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

IN WITNESS WHEREOF, the Borrower, the Agent and the Lenders have caused this Credit Agreement to be executed by their duly authorized officers as of the date set forth above.

PC CONNECTION, INC. (fka PC HoldCo, Inc.)

By: _____
Name:
Title:

CITIZENS BANK OF MASSACHUSETTS, as Agent

By: _____
Name:
Title:

CITIZENS BANK OF MASSACHUSETTS, as Lender

By: _____
Name:
Title:

100 Summer Street
13th Floor
Boston, MA 02110
Telecopier No:
Attention:

CITIZENS BANK NEW HAMPSHIRE

By: _____
Name:
Title:

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

FLEET BANK - NH

By: -----

Name:

Title:

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

SCHEDULE 1

Commitment Percentages

| Lender | Commitment Percentage ----- | Commitment Amount ----- |
|-----------------------------------|-----------------------------------|-------------------------------|
| Citizens Bank of Massachusetts | 50.00% | \$25,000,000 |
| Citizens Bank New Hampshire | 20.00% | \$10,000,000 |
| Fleet Bank - NH | 30.00% | \$15,000,000 |
| TOTALS | 100.00% | \$50,000,000 |

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") shall be deemed to be less than 0.5x; 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.

EXHIBIT A

FORM OF REVOLVING CREDIT NOTE

\$ _____

February 25, 2000

Boston, Massachusetts

FOR VALUE RECEIVED, the undersigned, PC CONNECTION, INC., a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") the principal sum of _____ DOLLARS (\$ _____) (or, if less, the aggregate unpaid principal amount of all Advances made by the Lender to the Borrower pursuant to the Credit Agreement as hereinafter defined), together with interest on the unpaid principal from time to time outstanding at the rate or rates and computed and payable at the times as described in the Credit Agreement. The entire balance of outstanding principal and accrued and unpaid interest shall be paid in full on the Credit Termination Date (as defined in the Credit Agreement).

This note represents indebtedness for one or more Advances made by the Lender to the Borrower under the Credit Agreement dated as of February 25, 2000 (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement") by and among the Borrower, the Lenders from time to time parties thereto, and Citizens Bank of Massachusetts, as Agent for the Lenders (the "Agent"). Capitalized terms used herein and not otherwise defined shall have the meaning set forth in the Credit Agreement.

The Borrower shall have the right, at any time, to voluntarily prepay all or any part of the outstanding principal amount of this note subject to the provisions of the Credit Agreement. In addition to the payment of interest as provided above, the Borrower shall, on demand, pay interest on any overdue installments of principal and, to the extent permitted by applicable law, on overdue installments of interest at the rate set forth in the Credit Agreement.

If any payment of principal or interest due hereunder is not made within ten (10) days of its due date, the Borrower will pay to the Agent for the account of the Lender, on demand, a late payment charge equal to the amount set forth in the Credit Agreement.

The holder of this note is entitled to all the benefits and rights of a Lender under the Credit Agreement to which reference is hereby made for a statement of the terms and conditions under which the entire unpaid balance of this note, or any portion hereof, shall become immediately due and payable. Any capitalized term used in this note which is not otherwise expressly defined herein shall have the meaning ascribed thereto in the Credit Agreement.

The Borrower hereby waives presentment, demand, notice, protest and other demands and notices in connection with the delivery, acceptance or enforcement of this note.

No delay or omission on the part of the holder of this note in exercising any right hereunder shall operate as a waiver of such right or of any other right under this note, and a waiver, delay or omission on any one occasion shall not be construed as a bar to or waiver of any such right on any future occasion.

The Borrower hereby agrees to pay on demand all reasonable costs and expenses, including, without limitation, reasonable attorneys' fees and legal expenses, incurred or paid by the holder of this note in enforcing this note on default.

THE LENDER AND THE BORROWER AGREE THAT NEITHER OF THEM NOR ANY OF THEIR ASSIGNEES OR SUCCESSORS SHALL (A) SEEK A JURY TRIAL IN ANY LAWSUIT, PROCEEDING, COUNTERCLAIM OR ANY OTHER ACTION BASED UPON OR ARISING OUT OF, THIS NOTE, THE CREDIT AGREEMENT, ANY LENDER AGREEMENT, ANY DOCUMENT, INSTRUMENT OR AGREEMENT EXECUTED IN CONNECTION WITH ANY OF THE FOREGOING, ANY COLLATERAL SECURING ALL OR ANY PART OF THE LENDER OBLIGATIONS OR THE DEALINGS OR THE RELATIONSHIP BETWEEN OR AMONG ANY OF THEM, OR (B) SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS PARAGRAPH HAVE BEEN FULLY DISCUSSED BY EACH OF THE LENDER AND THE BORROWER WITH THEIR RESPECTIVE COUNSEL, AND THESE PROVISIONS SHALL BE SUBJECT TO NO EXCEPTIONS. NEITHER THE LENDER NOR THE BORROWER HAS AGREED WITH OR REPRESENTED TO THE OTHER THAT THE PROVISIONS OF THIS PARAGRAPH WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

This note shall be deemed to be under seal, and all rights and obligations hereunder shall be governed by the laws of The Commonwealth of Massachusetts (without giving effect to any conflicts of law provisions contained therein).

PC CONNECTION, INC.

By: _____
Name:
Title:

EXHIBIT B

FORM OF NOTICE OF BORROWING

PC CONNECTION, INC.

Citizens Bank of Massachusetts, as Agent
_____, Boston, MA 02101

Attention: _____

Re: Credit Agreement Dated as of February 25, 2000 by and among PC
Connection, Inc., the Lenders parties thereto, and Citizens Bank of
Massachusetts, as Agent (the "Credit Agreement")

Ladies and Gentlemen:

Pursuant to Section 2.2(a) of the Credit Agreement, the undersigned hereby
requests that the Lenders make Advances to the Borrower in the aggregate amount
of \$_____ on _____, ____.

The representations and warranties contained or referred to in Article 5 of
the Credit Agreement are true and accurate on and as of the effective date of
the requested Advances as though made at and as of such date (except as to
representations and warranties made as of a certain date, which shall be true
and correct as of such date, and except that the references in the Agreement to
the 1998 Financial Statements are deemed to refer to the most recent annual
financial statements furnished to the Agent and the Lenders pursuant to Section
6.2 of the Credit Agreement); and no Default has occurred and is continuing or
will result from the requested Advances.

PC CONNECTION, INC.

By: _____

Name:

Title:

EXHIBIT C

FORM OF CERTIFICATE OF PERMITTED ACQUISITION

PC CONNECTION, INC.

Citizens Bank of Massachusetts, as Agent

_____, Boston, MA 02101

Attention: _____

Re: Credit Agreement Dated as of February 25, 2000 by and among PC Connection, Inc., the Lenders parties thereto, and Citizens Bank of Massachusetts, as Agent (the "Credit Agreement")

Ladies and Gentlemen:

The undersigned intends to request, pursuant to Section 2.2(a) of the Credit Agreement, that the Lenders make Permitted Acquisition Advances to the Borrower in the aggregate amount of \$_____ on _____, _____ and hereby represents and warrants that the requested Permitted Acquisition Advance will be used for the acquisition described in Schedule 1 hereto (including but not limited to name and location of company to be acquired) (the "Permitted Acquisition"). The Borrower hereby certifies that the Permitted Acquisition provides for (a) the acquisition of substantially all of the assets, shares or partnership interests of a Person, (b) such Person is in a substantially similar or related line of business as the Borrower, (c) the ratio of total consideration paid for such property to the fair market value of such property is comparable to recent industry transactions, and such determination has been confirmed by the Agent, (d) such Person has positive EBITDA for the twelve months of operations prior to this acquisition, (e) immediately subsequent to the acquisition, the Borrower will be in compliance with all terms of the Lender Agreements, and (f) after giving effect to the acquisition, the ratio of Consolidated Senior Debt to EBITDA will not exceed 2.5 to 1. Capitalized terms used herein and not otherwise defined shall have the meaning set forth in the Credit Agreement.

PC CONNECTION, INC.

By:

Name:

Title:

EXHIBIT D

FORM OF COMPLIANCE CERTIFICATE

PC CONNECTION, INC.

Citizens Bank of Massachusetts, as Agent
_____, Boston, MA 02101
Attention: _____

Re: Credit Agreement Dated as of February 25, 2000 by and among PC Connection, Inc., the Lenders parties thereto, and Citizens Bank of Massachusetts, as Agent (the "Credit Agreement")

Ladies and Gentlemen:

Pursuant to the provisions of Section 6.1 or 6.2 of the Credit Agreement, the undersigned hereby certifies on behalf of the Borrower as follows:

- | | | |
|-----|---|-------------|
| (A) | Advances..... | \$ _____ |
| (B) | Letter of Credit Outstandings..... | \$ _____ |
| (C) | Maximum Credit Amount..... | \$ _____ |
| (D) | Amount available for Advances under the Credit Agreement (line C minus the sum of line A plus line B)..... | \$ _____ |
| (E) | Letter of Credit Limit..... | \$5,000,000 |
| (F) | Amount available for Letter of Credit Requests (lesser of line D or sum of line E minus line B)..... | \$ _____ |
- (G) (1) The representations and warranties made by or on behalf of the Borrower in the Credit Agreement and in all other Lender Agreements are true and correct in all material respects on and as of the date hereof, with the same effect as if made at and as of the date hereof (except as to representations and warranties made as of a certain date, which shall be true and correct only as of such date, except as to transactions permitted under the terms of the Credit Agreement, and except that the references in the Agreement to the 1998 Financial Statements are deemed to refer to the most recent annual financial statements furnished to the Agent and the Lenders pursuant to Section 6.2 of the Credit Agreement);

(2) since the end of the last fiscal year, neither the business nor assets, nor the condition, financial or otherwise, of the Borrower has been subject to any Material Adverse Effect;

(3) except as set forth in the certificates attached hereto and except as heretofore disclosed to the Agent in a previous Compliance Certificate, there has been no change (i) in the charter documents or By-Laws of the Borrower heretofore certified to the Agent or (ii) in the incumbency of the officers of the Borrower whose signatures have heretofore been certified to the Agent;

(4) the financial statements attached hereto as Schedule 1 are in compliance with the applicable provisions of Section 6.1 or 6.2 of the Credit Agreement, as the case may be;

(5) the undersigned has caused the provisions of the Credit Agreement to be reviewed and, as of the date hereof, there is no Default thereunder, and no condition which, with the passage of time or giving of notice or both, would constitute a Default thereunder, other than as set forth on Schedule 2 attached hereto.

(I) Attached hereto as Schedule 3 are calculations demonstrating that, based upon the consolidated financial statements of the Borrower attached hereto as Schedule 1, the Borrower is in compliance with all financial restrictions set forth in the Credit Agreement.

Terms defined in the Credit Agreement and not otherwise expressly defined herein are used herein with the meanings so defined in the Credit Agreement.

In witness whereof, the undersigned has caused an authorized officer to execute this Certificate on this ____ day of _____, ____.

PC CONNECTION, INC.

By: _____
Name:
Title:*

- -----
* Must be signed by the chief executive officer or chief financial officer of the Borrower.

SCHEDULE 1
to Compliance Certificate

The financial statements attached to this Schedule are submitted in compliance with the following section of the Credit Agreement (check one):

- Section 6.1
- Section 6.2

SCHEDULE 2
to Compliance Certificate

Defaults - Action Being Taken

SCHEDULE 3
to Compliance Certificate

For purposes of computing the ratios and limitations comprising the financial restrictions that follow, terms that are capitalized and not defined herein will be given the meanings ascribed to such terms in the Credit Agreement.

| | | | |
|--|----------|--|----------|
| A. Consolidated Net Worth | | | |
| (a) | | Consolidated total assets | \$ _____ |
| (b) | | Consolidated total liabilities | \$ _____ |
| (c) | | line (a) - line (b) | \$ _____ |
| (d) | | Minimum Consolidated Net Worth required in | |
| Credit Agreement | \$ _____ | | |
| B. Minimum Consolidated Net Income | \$ _____ | | |
| (a) Consolidated Net Income for last four consecutive quarters | \$ _____ | | |
| (b) Minimum Consolidated Net Income required in Credit Agreement | \$ _____ | | |
| C. Amount of Inventory Financing | | | |
| (a) Reported amount of inventory and equipment financed under inventory and equipment finance agreements in prior Compliance Certificate | \$ _____ | | |
| (b) Amount of inventory and equipment financed under finance agreements as of the date of the financing statements attached to Schedule 1 hereto | \$ _____ | | |

EXHIBIT E

FORM OF LIBOR PRICING NOTICE

PC CONNECTION, INC.

Citizens Bank of Massachusetts, as Agent
_____, Boston, MA 02101
Attention: _____

Re: Credit Agreement Dated as of February 25, 2000 by and among PC Connection, Inc., the Lenders parties thereto, and Citizens Bank of Massachusetts, as Agent (the "Credit Agreement")

Ladies and Gentlemen:

Pursuant to Section 2.4 of the Agreement, the undersigned hereby confirms its request made on _____, for a LIBOR Rate Loan in the amount of \$_____ comprising [all or a portion] of the outstanding Advances, effective _____.

The Interest Period applicable to said LIBOR Rate Loan will be [one][two][three][four][six] months.

Said LIBOR Rate Loan represents a [conversion/continuation] of the [Prime] [LIBOR] Rate Loan in the same amount made on _____.

PC CONNECTION, INC.

By: _____
Name:
Title:

HALE AND DORR LLP
COUNSELLORS AT LAW

www.haledorr.com
60 STATE STREETo BOSTON, MASSACHUSETTS 02109
617-526-6000o FAX 617-526-5000

EXHIBIT F

FORM OF OPINION OF BORROWER'S COUNSEL

February 25, 2000

To the Banks party to the Credit Agreement referred to below, Citizens Bank of Massachusetts, as Administrative Agent for such Banks

PC Connection, Inc.

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 3.1 of the Amended and Restated Credit Agreement dated as of February 25, 2000 (the "Credit Agreement"), among PC Connection, Inc. (fka PC Holdco, Inc.) a Delaware corporation (the "Borrower"), the lenders party thereto (the "Banks"), and Citizens Bank of Massachusetts, as Administrative Agent for such Banks (the "Agent"). Capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed to them in the Credit Agreement.

We have acted as counsel to (i) the Borrower, and (ii) PC Connection Sales Corp., a Delaware corporation, Merrimack Services Corp., a Delaware corporation, ComTeq Federal, Inc., a Maryland corporation ("ComTeq"), each a wholly owned subsidiary of the Borrower and for PC Connection Sales of Massachusetts, Inc., a wholly owned subsidiary of PC Connection Sales Corp. (collectively, the "Subsidiaries") in connection with the preparation, execution and delivery of the Credit Agreement and the other Credit Documents (as defined below).

In rendering the opinions expressed below, we have examined:

- (a) the Credit Agreement;
- (b) the Notes in favor of each of the Banks;

Hale and Dorr LLP Includes Professional Corporations
* an independent joint venture law firm

BOSTON

WASHINGTON, DC NEW YORK

(c) the Guaranty executed by each of the Subsidiaries in favor of the Agent on behalf of the Banks (the "Subsidiary Guaranty");

(d) the respective Certificate of Incorporation or Articles of Incorporation of each of the Borrower and the Subsidiaries (as the case may be), as in effect on the date hereof (collectively, the "Certificates of Incorporation");

(e) the By-laws of each of the Borrower and the Subsidiaries (as the case may be) each as in effect on the date hereof, provided to us by the Borrower and the Subsidiaries (together, the "By-Laws");

(f) certified copies of resolutions of the boards of directors of each of the Borrower and the Subsidiaries (as the case may be) approving the transactions contemplated by such entities in connection with the Credit Agreement (the "Authorizing Resolutions");

(g) authorization, incumbency and signature certificates as to the officers of each of the Borrower and the Subsidiaries;

(h) certificates of legal existence and corporate good standing for each of the Borrower and the Subsidiaries, as listed on Schedule I;

(i) certificates of authorization to transact business as a foreign corporation of each of the Borrower and the Subsidiaries, as listed on Schedule I;

(j) an Officers' Certificate of the President and Chief Operating Officer of the Borrower, and the President and chief accounting officer of each of the Subsidiaries of even date herewith (the "Officers' Certificate"), a copy of which is attached hereto as Exhibit B; and

(k) such other documents, instruments and certificates (including, but not limited to, certificates of public officials and officers of the Borrower) as we have considered necessary for purposes of this opinion.

The documents listed in lettered clauses (a)-(c) are referred to collectively herein as the "Credit Documents".

In our examination of the documents described above, we have assumed the genuineness of all signatures, the capacity, power and authority of all parties (other than the Borrower and the Subsidiaries) to execute and deliver all applicable documents, the legal capacity of all individual signatories, the authenticity of all documents submitted to us as originals, the conformity to original documents of all copies of document submitted to us, and the authenticity of the originals of such latter documents.

Insofar as this opinion relates to factual information which is in the possession of the Borrower or the Subsidiaries, we have relied exclusively upon the representations of the Borrower and the Subsidiaries contained in the Credit Documents and the Officers' Certificate. Although we have not conducted any independent investigation of the factual matters, nothing has come to our attention leading us to question the accuracy of such matters.

Any reference to "our knowledge" or "knowledge" or any variation thereof shall mean the conscious awareness of the attorneys in this firm who have rendered substantive attention to this transaction of the existence or absence of any facts which would contradict our opinions and statements set forth herein. We have not undertaken any independent investigation to determine the existence or absence of the factual information referred to in the first sentence hereof, and no inference as to our knowledge of the existence or absence of such facts should be drawn from the fact of our representation of the Borrower and the Subsidiaries. Without limiting the foregoing, with respect to our opinions in paragraphs 5(c) and 7 below, we have not conducted a search of the dockets of any court or administrative or other regulatory agency.

We have assumed that the Agent and each Bank and each of the other parties to the Credit Documents (other than the Borrower and the Subsidiaries) has the power and authority and has taken the corporate action necessary to execute and deliver the Credit Documents to which it is a party, and that no consent, approval, authorization, declaration or filing by or with any governmental commission, board or agency is required for the valid execution and delivery of such documents by such parties (other than the Borrower and the Subsidiaries). We have assumed the due execution and delivery by each Bank and each of the other parties to the Credit Documents (other than the Borrower and the Subsidiaries) of each of the Credit Documents to which it is a party, and that such Credit Documents constitute their valid and binding obligations enforceable against it in accordance with their terms.

We express no opinion herein with respect to the laws of any state or jurisdiction other than the Commonwealth of Massachusetts, the General Corporation Law of the State of Delaware, the federal laws of the United States of America and (solely with respect to the opinions in (i) paragraph 2 below to the extent of our statements regarding ComTeq Federal, Inc.'s corporate power and authority to own, operate and lease its properties and assets and to carry on its business as it is now being conducted and (ii) paragraph 3 below to the extent applicable to ComTeq Federal, Inc.) the Corporations and Associations Article of the Annotated Code of Maryland. To the extent that the laws of any other jurisdiction govern any of the matters as to which we are opining herein, we have assumed that such laws are identical to the state laws of the Commonwealth of Massachusetts, and we are expressing no opinion herein as to whether such assumption is reasonable or correct.

For purposes of our opinions in paragraph 4 insofar as they relate to the enforceability of the Subsidiary Guaranty executed and delivered by the Subsidiaries, we have assumed that each Subsidiary has received reasonably equivalent value and fair consideration in exchange for their respective undertakings under the Subsidiary Guaranty. With respect to the opinions expressed in paragraph 4 below for each of the Subsidiaries, we have assumed that the execution and delivery of such Subsidiary Guaranty by such entity is necessary or convenient to the conduct, promotion or attainment of the business of such Subsidiary under Delaware Corporation Law ss. 122(13).

The opinions expressed in paragraphs 1 and 2 below, insofar as they relate to the due organization, valid existence and corporate good standing of each of the Borrower and the Subsidiaries in Delaware, are based solely upon the certificates referred to in clause (h) above, are rendered as of the respective dates of such certificates and are limited accordingly. Our opinions expressed in paragraphs 1 and 2 below, insofar as they relate to the qualification to transact business as a foreign corporation of the Borrower and the Subsidiaries are based solely upon the certificates referred to in clause (i) above, are rendered as of the respective dates of such certificates and are limited accordingly.

We express no opinion as to the enforceability of any right to set-off against any deposit account of the Borrower or any Subsidiary to the extent that (a) the funds on deposit in said accounts have been accepted by the Agent or any Bank with an intent to apply such funds to a preexisting claim rather than to hold such funds subject to withdrawals in the ordinary course, (b) the set-off is directed against checks held by the Agent or any Bank for collection only and not for deposit, (c) the funds on deposit in said accounts are in any manner special accounts which, by the express terms on which they are created are made subject to the rights of a third party, or (d) the obligations against which any deposit account is set-off are not due and payable.

Our opinions below are qualified to the extent that the validity or enforceability of the documents referred to or of any of the rights granted to any party pursuant thereto may be subject to or affected by (i) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or similar laws affecting the rights of creditors generally, (ii) statutory or decisional law concerning recourse by creditors to security in the absence of notice or hearing, and (iii) duties and standards imposed generally on creditors and parties to contracts, including, without limitation, requirements of good faith, reasonableness and fair dealing. Furthermore, we express no opinion as to the availability of any equitable or specific remedy upon any breach of any of the agreements as to which we are opining herein or any of the agreements, documents or obligations referred to therein, as the availability of such remedies may be subject to the discretion of a court. We express no opinion as to the enforceability of a waiver of rights granted by the Constitution of the United States of America, or any state thereof, or the vesting of jurisdiction in, or the consent to the exercise of jurisdiction by, any court. We have assumed for the purposes of our opinions that the Agent and each Bank is subject to control, regulation or examination by a state or federal regulatory agency.

Based upon and subject to the foregoing, and further subject to the qualifications set forth below, it is our opinion that:

The Borrower is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, with all requisite corporate power and authority to own, operate or lease its properties and assets (as such property and assets are known to us) and to carry on its business as, to our knowledge, it is now being conducted. The Borrower is qualified to transact business as a foreign corporation in New Hampshire and Ohio.

Each of the Subsidiaries (other than ComTeq Federal, Inc.) is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with all requisite corporate power and authority to own, operate or lease its properties and assets (as such property and assets are known to us) and to carry on its business as, to our knowledge, it is now being conducted. PC Connection Sales Corp. is qualified to transact business as a foreign corporation in the Commonwealth of Massachusetts. ComTeq Federal, Inc. is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland, with all requisite corporate power and authority to own, operate or lease its properties and assets (as such property and assets are known to us) and to carry on its business as, to our knowledge, it is now being conducted.

Each of the Borrower and the Subsidiaries has full corporate power and authority to execute, deliver and perform each of the Credit Documents to which it is a party. All necessary corporate action on the part of each of the Borrower and

the Subsidiaries required to be taken by law and by their respective Certificates of Incorporation or Articles of Incorporation and By-laws to authorize the execution and delivery by each of them of each of the Credit Documents to which it is a party and the performance of its obligations thereunder, has been taken.

Each of the Credit Documents to which the Borrower or the Subsidiaries is a party has been duly executed and delivered by the Borrower or the Subsidiaries party thereto, as the case may be, constitutes a valid and binding obligation of the Borrower or the Subsidiaries party thereto, as the case may be, and is enforceable against the Borrower or the Subsidiaries party thereto, as the case may be, in accordance with its respective terms.

The execution and delivery by the Borrower and the Subsidiaries of each of the Credit Documents to which it is a party, the performance by each of the Borrower and the Subsidiaries of the respective terms and provisions thereof, and the consummation of the transactions contemplated by the Credit Documents will not violate, conflict with, result in a breach or termination of, or a default under (or an event which, with or without due notice or lapse of time, or both, would constitute a default under) or accelerate the performance required by, or result in the creation of any lien, security interest, charge or other encumbrance upon any of the properties or assets of any of the Borrower or the Subsidiaries under any of the terms, conditions or provisions of: (a) their respective Certificates of Incorporation or Articles of Incorporation or By-laws; (b) any laws applicable to any of the Borrower or the Subsidiaries; (c) to our knowledge, any judgment, order, decree, ruling or injunction issued in the United States of America specifically naming any of the Borrower or the Subsidiaries of any court or governmental authority; or (d) any agreement, contract, instrument or other document listed on Exhibit A hereto.

No authorization, approval or consent of, and no filing or registration with, any governmental or regulatory authority or agency of the United States of America, the Commonwealth of Massachusetts, is required on the part of the Borrower or Subsidiaries for the execution, delivery or performance by any of the Borrower or the Subsidiaries of the Credit Documents.

To our knowledge there are no private or governmental litigation matters or proceedings or investigations pending against the Borrower or any Subsidiary.

The foregoing opinions are subject to the following comments and qualifications:

A. The enforceability of provisions in the Credit Documents, to the effect that terms may not be waived or modified except in writing, may be limited under certain circumstances.

B. We express no opinion as to the enforceability of sections of the Credit Documents concerning evidentiary standards applicable to your notes and records.

This opinion is based upon currently existing statutes, rules, regulations and judicial decisions, and we disclaim any obligation to advise you of any change in any of these sources of law

or subsequent legal or factual developments which might affect any matters or opinions set forth herein.

Please note that we are opining only as to the matters expressly set forth herein, and no opinion should be inferred as to any other matters. A copy of this opinion may be delivered to each Person that may become a Bank under the Credit Agreement, and each such Person may rely on this opinion as if it were addressed to it and had been delivered to it on the date hereof. Subject to the foregoing, this opinion is solely for your benefit, and the benefit of your counsel, in connection with the consummation of the transactions contemplated by the Credit Agreement, and may not be quoted or relied upon by any other person for any purpose or used by you or your counsel for any other purpose, without our prior written consent.

Very truly yours,

HALE AND DORR LLP

SCHEDULE I [to Borrower's Counsel's Opinion]

(Good Standing/Foreign Qualification Certificates)

A. PC Connection, Inc. (fka PC Holdco, Inc.) ("Parent")

- 1) Certificate of Legal Existence and Good Standing of Parent dated February 18, 2000 issued by the Secretary of State of the State of Delaware.
- 2) Certificate of Qualification As A Foreign Corporation Doing Business of Parent dated February 18, 2000 issued by the Secretary of State of the State of New Hampshire.
- 3) Certificate of Qualification As A Foreign Corporation Doing Business of Parent dated February 18, 2000 issued by the Secretary of State of the State of Ohio.

B. PC Connection Sales Corp. (fka PC Connection, Inc.) ("Sales")

- 1) Certificate of Legal Existence and Good Standing of Sales dated February 18, 2000 issued by the Secretary of State of the State of Delaware.
- 2) Certificate of Qualification As A Foreign Corporation Doing Business of Sales dated February 18, 2000 issued by the Secretary of State of the Commonwealth of Massachusetts.

C. PC Connection Sales of Massachusetts, Inc. ("Massachusetts")

- 1) Certificate of Legal Existence and Good Standing of Massachusetts dated February 18, 2000 issued by the Secretary of State of the State of Delaware.

D. Merrimack Services Corp. ("Merrimack")

- 1) Certificate of Legal Existence and Good Standing of Merrimack dated February 18, 2000 issued by the Secretary of State of the State of Delaware.

E. ComTeq Federal, Inc. ("Comteq")

- 1) Certificate of Legal Existence and Good Standing of Comteq dated February 18, 2000 issued by the Secretary of State of the State of Maryland.
- 2) Certificate of Qualification As A Foreign Corporation Doing Business of Comteq dated February 18, 2000 issued by the Superintendent of Corporations for the Government of the District of Columbia.
- 3) Certificate of Qualification As A Foreign Corporation Doing Business of Comteq dated February 17, 2000 issued by the Secretary of State of the Commonwealth of Virginia.

EXHIBIT A [to Borrower's Counsel's Opinion]

1. Lease between PC Connection, Inc. and Miller-Valentine Partners, dated September 24, 1990, as amended, for property located at 2870 Old State Route 73, Wilmington, Ohio. Miller-Valentine Partners assigned this lease to EWE Warehouse Investments V Ltd. on August 6, 1999.
2. Lease between PC Connection, Inc. and Gallup & Hall partnership, dated May 1, 1997, for property located at 442 Marlboro Street, Keene, New Hampshire.
3. Lease between PC Connection, Inc. and Gallup & Hall partnership, dated June 1, 1987, as amended, for property located in Marlow, New Hampshire.
4. Lease between PC Connection, Inc. and Gallup & Hall partnership, dated July 22, 1998, for property located at 450 Marlboro Street, Keene, New Hampshire.
5. Lease between PC Connection, Inc. and Century Park, LLC, dated October 1, 1997 for property located at Route 111, Hudson, New Hampshire.
6. Amended and Restated Lease between PC Connection, Inc. and G&H Post, LLC, dated December 29, 1997 for property located at Route 101A, Merrimack, New Hampshire.
7. Sublease between PC Connection, Inc. and ABX Air Inc., dated June 7, 1995, for property located at 2870 Old State Route 73, Wilmington, Ohio.
8. Letter Agreement between PC Connection, Inc. and Airborne Freight Corporation D/B/A "Airborne Express," dated April 30, 1990, as amended.
9. Agreement between PC Connection, Inc. and Ingram Micro, Inc., dated October 30, 1997, as amended.
10. Form of Registration Rights Agreement among PC Connection, Inc., Patricia Gallup, David Hall and the 1998 PC Connection Voting Trust.
11. Amendment No. 1 to Amended and Restated Lease between PC Connection, Inc. and G&H Post, LLC, dated December 29, 1998 for property located at Route 101A, Merrimack, New Hampshire.
12. Lease between PC Connection, Inc. and Dover Mills, LLC, dated August 1, 1998 for property located at Coheco Falls Millworks, Dover, New Hampshire.
13. Amended Lease Agreement between PC Connection, Inc. and Dover Mills, LLC dated August 1, 1998.
14. Lease Assignment between to PC Connection, Inc., MicroWarehouse, Inc. (leasee) and EWE Warehouse Investments V, Ltd. (lessor), dated December 13, 1999, for property located at 2935 Old State Road, Route 73, Wilmington, Ohio.

15. Lease between PC Connection, Inc. and The Hillsborough Group, dated January 5, 2000, for property located at 706 Route 101A, Merrimack, New Hampshire.
16. Lease Assignment between PC Connection, Inc. and Merisel Americas, Inc. (leasee) and Bronx II, LLC (lessor), dated January 4, 2000, for property located at 293 Boston Post Road, Marlborough, Massachusetts.
17. Lease Assignment between PC Connection, Inc. and PC Connection Sales of Massachusetts, Inc., dated January 5, 2000, for property located at 293 Boston Post Road, Marlborough, Massachusetts.
18. Agreement for Inventory Financing, dated August 17, 1999, as amended (including an Amendment to Agreement for Inventory Financing, dated February 25, 2000), between PC Connection Sales Corp. and IBM Credit Corporation.
19. Agreement for Wholesale Financing (Security Interest), dated October 12, 1993, as amended (including an Amendment to Agreement for Wholesale Financing, dated February 25, 2000), between ComTeq Federal, Inc. and IBM Credit Corporation.
20. Guaranty by the Subsidiaries (other than ComTeq Federal, Inc.), dated February 25, 2000, in favor of IBM Credit Corporation.
21. Guaranty by the Subsidiaries (other than PC Connection Sales Corp.), dated February 25, 2000, in favor of IBM Credit Corporation.
22. Agreement for Wholesale Financing, dated March 25, 1998, as amended (including an Amendment to Agreement for Wholesale Financing, dated February 25, 2000), between PC Connection Sales Corp. and Duetsche Financial Services Corporation.
23. Agreement for Wholesale Financing (Unsecured - Negative Covenant), dated February 25, 2000, between ComTeq Federal, Inc. and Duetsche Financial Services Corporation.
24. Guaranties, dated February 25, by PC Connection, Inc. in favor of Duetsche Financial Services Corporation.

PC CONNECTION, INC.

Officers' Certificate

Each of Wayne L. Wilson, in his capacity as President and Chief Operating Officer of PC Connection, Inc., a Delaware corporation (the "Company") and President of Merrimack Services Corp., a Delaware corporation ("Merrimack"); Mark A. Gavin, Vice President and Chief Financial Officer of the Company and Chief Financial Officer of Merrimack; Robert F. Wilkins, President and Treasurer of PC Connection Sales Corp., a Delaware corporation ("Sales") and President and Treasurer of PC Connection Sales of Massachusetts, Inc. ("Massachusetts"); and Gary Sorkin, President and Treasurer of ComTeq Federal, Inc., a Maryland corporation ("ComTeq", and together with Merrimack, Sales and Massachusetts, the "Subsidiaries"), hereby certifies to Hale and Dorr LLP ("Hale and Dorr") on behalf of the Company and the Subsidiaries that:

1. All shares of capital stock of the Company issued by the Company to date were issued originally for consideration of money paid or tangible or intangible property received or services rendered or a combination thereof, as approved or ratified by the Board of Directors of the Company in authorizing such issuances, and such authorized consideration was in each case received by the Company.
2. All shares of capital stock of the Subsidiaries issued by the Subsidiaries to date were issued originally for consideration of money paid or tangible or intangible property received or services rendered or a combination thereof, as approved or ratified by the Board of Directors of the Subsidiaries in authorizing such issuances, and such authorized consideration was in each case received by the Subsidiaries.
3. The Company owns of record and beneficially all of the outstanding shares of capital stock of the Subsidiaries.
4. The outstanding shares of capital stock of the Subsidiaries are owned free and clear of all liens, encumbrances, equities and claims, and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into any shares of capital stock of or ownership interests in the Subsidiaries are outstanding.
5. He does not know of any private or governmental litigation matters or proceedings or investigations pending against the Company or any of the Subsidiaries.
6. Other than Ms. Patricia Gallup and Mr. David Hall, the Company is not aware of any entity or person which beneficially owns 25% or more of the Company's outstanding voting securities.
7. The execution and delivery by the Company and its Subsidiaries of each of the Credit Documents to which it is a party, the performance by each of the Company and its Subsidiaries of the respective terms and provisions thereof, and the consummation of the transactions contemplated by the Credit Documents will not violate, conflict with, result in a breach or termination of, or a default under (or an event which, with or without due notice or lapse of time, or both, would constitute a default under) or accelerate the performance required by, or result in the creation of any lien, security interest, charge or other encumbrance upon any of the properties or assets of any of the Company or

its Subsidiaries under any of the terms, conditions or provisions of: (a) their respective Certificates of Incorporation or Articles of Incorporation or By-laws; (b) any laws applicable to any of the Company or its Subsidiaries; (c) to our knowledge, any judgment, order, decree, ruling or injunction issued in the United States of America specifically naming any of the Company or its Subsidiaries of any court or governmental authority; or (d) any agreement, contract, instrument or other document listed on Exhibit A to Hale and Dorr's legal opinion dated the date hereof.

8. The Exhibit A attached to Hale and Dorr's legal opinion is a list of all of the material contracts, agreements, instruments or other documents of the Company and its Subsidiaries (other than the Credit Documents).

This certificate is given to Hale and Dorr in connection with Hale and Dorr's delivery of certain legal opinions dated as of the date hereof in connection with the transactions described in the Amended and Restated Credit Agreement dated as of February ____, 2000 among the Company, the lenders party thereto and Citizens Bank of Massachusetts, as Administrative Agent (the "Credit Agreement"). This certificate may be relied upon by Hale and Dorr for purposes of such opinions. All capitalized terms used and not otherwise defined in this certificate shall have the meanings ascribed to them in the Credit Agreement.

EXHIBIT H

FORM OF ASSIGNMENT AND ACCEPTANCE AGREEMENT

Assignment and Acceptance Agreement dated as of _____, _____, by and between _____ (the "Assignor") and _____ (the "Successor Lender").

WHEREAS, the Assignor is one of the Lenders party to the Credit Agreement referred to below; and

WHEREAS, the Assignor desires to sell and the Successor Lender desires to purchase, all or a portion of the outstanding loans, advances of credit and commitments of Assignor under the Credit Agreement and the other documents, instruments and agreements related thereto.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties agree as follows:

Reference is made to the Credit Agreement dated as of February 25, 2000 (as amended or supplemented and as from time to time in effect, the "Credit Agreement"), among PC CONNECTION, INC. (the "Borrower"), the lenders party thereto (the "Lenders"), and CITIZENS BANK OF MASSACHUSETTS, as agent for the Lenders (the "Agent"). Terms defined in the Credit Agreement and not otherwise defined herein are used herein with the meanings so defined.

1. Assignment and Acceptance. Pursuant to Section 12.2 of the Agreement, as of the close of business on _____ (the "Assignment Date"), the Assignor hereby assigns to the Successor Lender \$_____ of its \$_____ outstanding Term Loan, \$_____ of its \$_____ current interest in the outstanding Advances and a ____% interest in its Commitment Percentage.

The foregoing assignment which constitutes a ____% Commitment Percentage under the Credit Agreement, is made together with the concomitant proportionate amount of the undersigned's other rights and obligations under the Credit Agreement and the other Lender Agreements, and the Successor Lender hereby accepts and assumes such rights and obligations completely. After giving effect to this assignment, the Assignor and the Successor Lender shall have the interests in the Notes and the Commitment Percentages set forth on Schedule 1 attached hereto, and the Commitment Percentages of all of the Lenders under the Credit Agreement shall be as set forth on Schedule 2 attached hereto.

2. Representations and Warranties.

(a) Other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned hereby free and clear of any adverse claim, the Assignor makes no representation or warranty and assumes no responsibility with respect to (i) the execution, delivery, effectiveness, enforceability, genuineness, validity or adequacy of the Credit Agreement, the Notes or any other Lender Agreement, (ii) any recital, representation, warranty, document, certificate, report or statement in, provided for in, received under or in connection with, the Credit Agreement or any other Lender Agreement, or (iii) the existence, validity, enforceability, perfection, recordation, priority, adequacy or value, now or hereafter, of any lien or other direct or indirect security afforded or purported to be afforded by any of the Lender Agreements or otherwise from time to time.

(b) The Assignor makes no representation or warranty and assumes no responsibility with respect to (i) the performance or observance of any of the terms or conditions of the Credit Agreement or any other Lender Agreement on the part of the Borrower, (ii) the business, operations, condition (financial or otherwise) or prospects of the Borrower or any other Person, or (iii) the existence of any Default.

(c) The Successor Lender confirms that it has received a copy of the Credit Agreement and each of the other Lender Agreements, together with copies of the most recent financial statements delivered pursuant to Sections 6.1 and 6.2 of the Credit Agreement, and such other documents and information as it has deemed appropriate to make its own credit and legal analysis and decision to enter into this Assignment and Acceptance Agreement. The Successor Lender confirms that it has made such analysis and decision independently and without reliance upon the Agent, the Assignor or any other Lender.

(d) The Successor Lender, independently and without reliance upon the Agent, the Assignor or any other Lender, and based on such documents and information as it shall be deem appropriate at the time, will make its own decisions to take or not take action under or in connection with the Credit Agreement or any other Lender Agreement.

(e) The Successor Lender irrevocably appoints the Agent to act as Agent for the Successor Lender under the Credit Agreement and the other Lender Agreements, all in accordance with Article 13 of the Agreement and the other provisions of the Credit Agreement and each other Lender Agreement.

(f) The Successor Lender agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement and the other Lender Agreements are required to be performed by it as a Lender.

(g) Except as to paragraph (a) above, the foregoing assignment is made without any representation, warranty or recourse of any kind by the Assignor.

3. Party to the Agreement, etc. Upon (a) the execution and delivery hereof by the parties hereto at least 5 Business Days prior to the Assignment Date, and (b) the payment by the Successor Lender to Assignor of an amount equal to the purchase price agreed between the Successor Lender and the Assignor, and (c) payment to the Agent of the fee required to be paid pursuant to Section 12.2(a) of the Agreement, the Successor Lender shall automatically become party to the Credit Agreement as a signatory thereto. As of the Assignment Date, the Successor Lender shall have all the rights and obligations of a Lender under the Credit Agreement and the other Lender Agreements as and to the extent set forth on Schedule 1 and Schedule 2 attached hereto. Copies of all notices and

other information required to be delivered to the Lenders under the Credit Agreement shall be delivered to the Successor Lender at the address(es) and to attention of the Person(s) specified below the Successor Lender's name on the execution page of this Assignment and Acceptance Agreement. As of the Assignment Date, the Assignor shall be released from its obligations under the Credit Agreement to a corresponding extent, and no further consent or action by any party shall be required.

4. Miscellaneous. This Assignment and Acceptance Agreement may be executed in any number of counterparts, which together shall constitute one instrument, shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts (without giving effect to the conflict of laws rules of any jurisdiction) and shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF, the Assignor and the Successor Lender have executed this Assignment and Acceptance Agreement as of the date first above written.

[ASSIGNOR]

By: _____
Name:
Title:

[SUCCESSOR LENDER]

By: _____
Name:
Title:

[Address for Notices]
Telecopier No.:
Attention:

The foregoing is hereby acknowledged and approved:

PC CONNECTION, INC.*

By: _____
Name:
Title:

CITIZENS BANK OF MASSACHUSETTS, as Agent

By: _____
Name:
Title:

- _____
* Include unless Borrower is in Default, at which point Borrower's consent is not required.

Schedule 1

Successor Lender's and Assignor's Interest

The Successor Lender's interest under the Credit Agreement on and after the Assignment Date shall be as follows:

| | | |
|--------------------------|----|-------|
| Commitment Percentage | | % |
| Principal Amount of Note | \$ | ----- |

The Assignor's interest under the Credit Agreement on and after the Assignment Date shall be as follows:

| | | |
|--------------------------|----|-------|
| Commitment Percentage | | % |
| Principal Amount of Note | \$ | ----- |

Schedule 2

Lenders' Commitment Percentages

After giving effect to the assignment on the Assignment Date, the Lenders' respective Commitment Percentages under the Credit Agreement shall be as follows:

| Lender | Commitment Percentage | Maximum Credit Amount |
|--------|-----------------------|-----------------------|
| | ----- | ----- |
| _____ | ____.____% | \$ _____ |
| _____ | ____.____% | \$ _____ |
| _____ | ____.____% | \$ _____ |
| TOTALS | 100.00% | _____.00 |

EXHIBIT I

FORM OF LETTER OF CREDIT REQUEST

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in the Registration Statements Nos. 333-69981, 333-50847, 333-50847, 333-50845, and 333-83943 of PC Connection, Inc. on Form S-8 of our report dated January 26, 2000, appearing in the Annual Report on Form 10-K of PC Connection, Inc. for the year ended December 31, 1999.

DELOITTE & TOUCHE LLP

Boston, Massachusetts
March 27, 2000

This schedule contains summary information extracted from the Company's annual financial statements on Form 10-K and is qualified in its entirety by reference to such financial statements.

| YEAR | | |
|-------------|-----------|-----------|
| DEC-31-1999 | | |
| JAN-01-1999 | | |
| DEC-31-1999 | | 20,416 |
| | 0 | |
| | 107,055 | |
| | 7,650 | |
| | 64,348 | |
| 190,811 | | 46,448 |
| | 23,322 | |
| | 223,537 | |
| 118,561 | | 0 |
| | 0 | |
| | 0 | |
| | 158 | |
| | 94,065 | |
| 223,537 | | 1,056,704 |
| | 1,056,704 | |
| | | 927,358 |
| | 927,358 | |
| | (116) | |
| | 6,821 | |
| 1,392 | | |
| | 36,665 | |
| | 13,935 | |
| 22,730 | | |
| | 0 | |
| | 0 | |
| | | 0 |
| | 22,730 | |
| | 1.45 | |
| | 1.41 | |