

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

---

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934\*  
For the quarterly period ended June 30, 2023  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-23827

**PC CONNECTION, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**02-0513618**

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

**730 Milford Road**

**Merrimack, New Hampshire**

(Address of principal executive offices)

**03054**

(Zip Code)

**(603) 683-2000**

(Registrant's telephone number, including area code)

Former name, former address and former fiscal year, if changed since last report: N/A

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	CNXN	Nasdaq Global Select Market

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the issuer's common stock as of July 26, 2023 was 26,256,784.

---

PC CONNECTION, INC. AND SUBSIDIARIES  
FORM 10-Q

TABLE OF CONTENTS

**PART I FINANCIAL INFORMATION**

	<b><u>Page</u></b>
<u>ITEM 1. Unaudited Condensed Consolidated Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets–June 30, 2023 and December 31, 2022</u>	1
<u>Condensed Consolidated Statements of Income–Three and Six Months Ended June 30, 2023 and 2022</u>	2
<u>Condensed Consolidated Statements of Stockholders’ Equity–Three and Six Months Ended June 30, 2023 and 2022</u>	3
<u>Condensed Consolidated Statements of Cash Flows–Six Months Ended June 30, 2023 and 2022</u>	4
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	5
<u>ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>ITEM 4. Controls and Procedures</u>	26

**PART II OTHER INFORMATION**

<u>ITEM 1. Legal Proceedings</u>	27
<u>ITEM 1A. Risk Factors</u>	27
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>ITEM 5. Other Information</u>	28
<u>ITEM 6. Exhibits</u>	29
<b><u>SIGNATURES</u></b>	30

---

**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**PC CONNECTION, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**  
**(amounts in thousands)**

	<u>June 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 243,983	\$ 122,930
Accounts receivable, net	592,663	610,280
Inventories, net	159,734	208,682
Income taxes receivable	9,016	—
Prepaid expenses and other current assets	16,537	11,900
Total current assets	1,021,933	953,792
Property and equipment, net	58,012	59,171
Right-of-use assets	5,775	7,558
Goodwill	73,602	73,602
Intangibles, net	4,038	4,648
Other assets	915	1,055
Total Assets	<u>\$ 1,164,275</u>	<u>\$ 1,099,826</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 277,235	\$ 232,638
Accrued payroll	20,257	24,071
Accrued expenses and other liabilities	49,813	53,808
Total current liabilities	347,305	310,517
Deferred income taxes	17,970	17,970
Noncurrent operating lease liabilities	4,196	4,994
Other liabilities	684	170
Total Liabilities	370,155	333,651
Stockholders' Equity:		
Common Stock	291	291
Additional paid-in capital	129,486	125,784
Retained earnings	715,726	686,037
Treasury stock, at cost	(51,383)	(45,937)
Total Stockholders' Equity	794,120	766,175
Total Liabilities and Stockholders' Equity	<u>\$ 1,164,275</u>	<u>\$ 1,099,826</u>

See notes to unaudited condensed consolidated financial statements.

**PC CONNECTION, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**  
*(amounts in thousands, except per share data)*

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Net sales	\$ 733,547	\$ 828,509	\$ 1,461,092	\$ 1,616,853
Cost of sales	605,770	691,608	1,211,019	1,351,646
Gross profit	127,777	136,901	250,073	265,207
Selling, general and administrative expenses	100,960	102,131	204,242	200,302
Restructuring and other charges	1,746	—	2,643	—
Income from operations	25,071	34,770	43,188	64,905
Other income, net	1,874	15	3,160	11
Income before taxes	26,945	34,785	46,348	64,916
Income tax provision	(7,248)	(9,387)	(12,453)	(17,726)
Net income	<u>\$ 19,697</u>	<u>\$ 25,398</u>	<u>\$ 33,895</u>	<u>\$ 47,190</u>
Earnings per common share:				
Basic	<u>\$ 0.75</u>	<u>\$ 0.97</u>	<u>\$ 1.29</u>	<u>\$ 1.80</u>
Diluted	<u>\$ 0.75</u>	<u>\$ 0.96</u>	<u>\$ 1.28</u>	<u>\$ 1.79</u>
Shares used in computation of earnings per common share:				
Basic	<u>26,256</u>	<u>26,268</u>	<u>26,291</u>	<u>26,262</u>
Diluted	<u>26,365</u>	<u>26,429</u>	<u>26,400</u>	<u>26,417</u>

See notes to unaudited condensed consolidated financial statements.

**PC CONNECTION, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(Unaudited)**  
*(amounts in thousands)*

	Three Months Ended June 30, 2023						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance - March 31, 2023	29,133	\$ 291	\$ 127,424	\$ 698,128	(2,852)	\$ (49,360)	\$ 776,483
Stock-based compensation expense	—	—	1,783	—	—	—	1,783
Restricted stock units vested	12	—	—	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(258)	—	—	—	(258)
Repurchase of common stock for treasury	—	—	—	—	(50)	(1,969)	(1,969)
Excise tax on stock repurchases	—	—	—	—	—	(54)	(54)
Issuance of common stock under Employee Stock Purchase Plan	13	—	537	—	—	—	537
Dividend declaration (\$0.08 per share)	—	—	—	(2,099)	—	—	(2,099)
Net income	—	—	—	19,697	—	—	19,697
Balance - June 30, 2023	<u>29,158</u>	<u>\$ 291</u>	<u>\$ 129,486</u>	<u>\$ 715,726</u>	<u>(2,902)</u>	<u>\$ (51,383)</u>	<u>\$ 794,120</u>

	Six Months Ended June 30, 2023						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance - December 31, 2022	29,123	\$ 291	\$ 125,784	\$ 686,037	(2,773)	\$ (45,937)	\$ 766,175
Stock-based compensation expense	—	—	3,636	—	—	—	3,636
Restricted stock units vested	22	—	—	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(471)	—	—	—	(471)
Repurchase of common stock for treasury	—	—	—	—	(129)	(5,392)	(5,392)
Excise tax on stock repurchases	—	—	—	—	—	(54)	(54)
Issuance of common stock under Employee Stock Purchase Plan	13	—	537	—	—	—	537
Dividend declaration (\$0.08 per share)	—	—	—	(4,206)	—	—	(4,206)
Net income	—	—	—	33,895	—	—	33,895
Balance - June 30, 2023	<u>29,158</u>	<u>\$ 291</u>	<u>\$ 129,486</u>	<u>\$ 715,726</u>	<u>(2,902)</u>	<u>\$ (51,383)</u>	<u>\$ 794,120</u>

	Three Months Ended June 30, 2022						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance - March 31, 2022	29,034	\$ 290	\$ 123,571	\$ 627,558	(2,773)	\$ (45,937)	\$ 705,482
Stock-based compensation expense	—	—	1,408	—	—	—	1,408
Restricted stock units vested	11	—	—	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(289)	—	—	—	(289)
Net income	—	—	—	25,398	—	—	25,398
Balance - June 30, 2022	<u>29,045</u>	<u>\$ 290</u>	<u>\$ 124,690</u>	<u>\$ 652,956</u>	<u>(2,773)</u>	<u>\$ (45,937)</u>	<u>\$ 731,999</u>

	Six Months Ended June 30, 2022						
	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance - December 31, 2021	29,025	\$ 290	\$ 122,354	\$ 605,766	(2,773)	\$ (45,937)	\$ 682,473
Stock-based compensation expense	—	—	2,790	—	—	—	2,790
Restricted stock units vested	20	—	—	—	—	—	—
Shares withheld for taxes paid on stock awards	—	—	(454)	—	—	—	(454)
Net income	—	—	—	47,190	—	—	47,190
Balance - June 30, 2022	<u>29,045</u>	<u>\$ 290</u>	<u>\$ 124,690</u>	<u>\$ 652,956</u>	<u>(2,773)</u>	<u>\$ (45,937)</u>	<u>\$ 731,999</u>

See notes to unaudited condensed consolidated financial statements.

**PC CONNECTION, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
*(amounts in thousands)*

	Six Months Ended June 30,	
	2023	2022
<b>Cash Flows provided by (used in) Operating Activities:</b>		
Net income	\$ 33,895	\$ 47,190
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,167	5,980
Adjustments to credit losses reserve	1,247	1,642
Stock-based compensation expense	3,636	2,790
Loss on disposal of fixed assets	475	13
Changes in assets and liabilities:		
Accounts receivable	16,370	(38,063)
Inventories	48,948	(16,603)
Prepaid expenses, income tax receivable, and other current assets	(13,653)	(3,352)
Other non-current assets	140	27
Accounts payable	44,584	(3,445)
Accrued expenses and other liabilities	(6,364)	(4,574)
Net cash provided by (used in) operating activities	<u>135,445</u>	<u>(8,395)</u>
<b>Cash Flows used in Investing Activities:</b>		
Purchases of property and equipment	(4,860)	(4,565)
Net cash used in investing activities	<u>(4,860)</u>	<u>(4,565)</u>
<b>Cash Flows used in Financing Activities:</b>		
Proceeds from short-term borrowings	67,895	26,054
Repayment of short-term borrowings	(67,895)	(26,054)
Purchase of common stock for treasury shares	(5,392)	—
Dividend payments	(4,206)	—
Issuance of stock under Employee Stock Purchase Plan	537	—
Payment of payroll taxes on stock-based compensation through shares withheld	(471)	(454)
Net cash used in financing activities	<u>(9,532)</u>	<u>(454)</u>
Increase (decrease) in cash and cash equivalents	121,053	(13,414)
Cash and cash equivalents, beginning of year	122,930	108,310
Cash and cash equivalents, end of period	<u>\$ 243,983</u>	<u>\$ 94,896</u>
<b>Non-cash Investing and Financing Activities:</b>		
Accrued purchases of property and equipment	\$ 205	\$ 390
Accrued excise tax on treasury purchases	\$ 54	\$ —
<b>Supplemental Cash Flow Information:</b>		
Income taxes paid	\$ 27,410	\$ 21,509
Interest paid	\$ 18	\$ 3

See notes to unaudited condensed consolidated financial statements.

**PC CONNECTION, INC. AND SUBSIDIARIES**  
**PART I—FINANCIAL INFORMATION**  
**Item 1—Financial Statements**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
*(amounts in thousands, except per share data)*

**Note 1—Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of PC Connection, Inc. and its subsidiaries, or the Company, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC, regarding interim financial reporting and in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Such principles were applied on a basis consistent with the accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods reported and of the Company's financial condition as of the date of the interim balance sheet. The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. Subsequent events have been evaluated through the date of issuance of these financial statements. The operating results for the three and six months ended June 30, 2023 may not be indicative of the results expected for any succeeding quarter or the entire year ending December 31, 2023.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts and disclosures of assets and liabilities and the reported amounts and disclosures of revenue and expenses during the period. Management bases its estimates and judgments on the information available at the time and various other assumptions believed to be reasonable under the circumstances. By nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from those estimates and assumptions.

***Treasury Stock, at Cost***

The total repurchases for the six months ended June 30, 2023 were recorded as treasury stock of \$5,446. Such cost reflects the applicable one percent excise tax imposed by the Inflation Reduction Act of 2022 on the net value of certain stock repurchases made after December 31, 2022.

***Restructuring and Other Charges***

The restructuring and other charges recorded for the three and six months ended June 30, 2023 were primarily related to an involuntary reduction in our headquarter workforce and included cash severance and other related termination benefits. These costs will be paid within a year of termination and any unpaid balances are included in accrued expenses as of June 30, 2023. The Company is currently evaluating additional restructuring activities for the third quarter of 2023 and beyond.

Restructuring and other charges are presented separately from selling, general and administrative expenses. Costs incurred were as follows (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
Employee separations	\$ 1,701	\$ —	\$ 2,399	\$ —
Other charges	45	—	244	—
Total restructuring and other charges	<u>\$ 1,746</u>	<u>\$ —</u>	<u>\$ 2,643</u>	<u>\$ —</u>

[Table of Contents](#)

Included in accrued expenses and other liabilities as of June 30, 2023 was \$1,381 related to unpaid termination benefits.

**Recently Issued Financial Accounting Standards**

In March 2020, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate, or LIBOR, and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. This ASU is applied prospectively and becomes effective immediately upon the transition from LIBOR. The Company's secured credit facility agreement references LIBOR, which is expected to be discontinued as a result of reference rate reform. The amendments are effective as of March 12, 2020 through December 31, 2022; however, ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848* has extended the effective date through December 31, 2024. The Company adopted this standard in the current quarter. The adoption of this ASU along with the related expedients did not have an impact to the Company's condensed consolidated financial statements.

**Note 2—Revenue**

The Company disaggregates revenue from its arrangements with customers by type of products and services, as it believes this method best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

The following tables represent a disaggregation of revenue from arrangements with customers for the three months ended June 30, 2023 and 2022, along with the segment for each category (in thousands).

	Three Months Ended June 30, 2023			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	\$ 88,081	\$ 87,590	\$ 74,231	\$ 249,902
Desktops	19,011	33,572	17,971	70,554
Software	33,828	17,561	13,059	64,448
Servers/Storage	22,605	18,705	11,959	53,269
Net/Com Products	28,584	28,727	22,233	79,544
Displays and Sound	23,654	27,322	16,785	67,761
Accessories	26,506	41,095	16,488	84,089
Other Hardware/Services	18,758	32,581	12,641	63,980
Total net sales	<u>\$ 261,027</u>	<u>\$ 287,153</u>	<u>\$ 185,367</u>	<u>\$ 733,547</u>

	Three Months Ended June 30, 2022			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	\$ 123,176	\$ 117,407	\$ 67,211	\$ 307,794
Desktops	23,749	52,632	13,267	89,648
Software	39,567	21,572	10,508	71,647
Servers/Storage	29,698	11,857	9,598	51,153
Net/Com Products	24,430	24,244	6,640	55,314
Displays and Sound	30,969	37,732	19,207	87,908
Accessories	35,656	57,728	15,683	109,067
Other Hardware/Services	21,106	25,782	9,090	55,978
Total net sales	<u>\$ 328,351</u>	<u>\$ 348,954</u>	<u>\$ 151,204</u>	<u>\$ 828,509</u>



[Table of Contents](#)

The following tables represent a disaggregation of revenue from arrangements with customers for the six months ended June 30, 2023 and 2022, along with the segment for each category (in thousands).

	Six Months Ended June 30, 2023			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	\$ 183,000	\$ 201,908	\$ 126,005	\$ 510,913
Desktops	37,773	63,714	32,388	133,875
Software	68,404	56,795	22,976	148,175
Servers/Storage	46,896	31,212	21,946	100,054
Net/Com Products	56,888	49,259	35,553	141,700
Displays and Sound	46,467	54,042	29,987	130,496
Accessories	55,241	88,689	29,961	173,891
Other Hardware/Services	39,472	55,477	27,039	121,988
Total net sales	<u>\$ 534,141</u>	<u>\$ 601,096</u>	<u>\$ 325,855</u>	<u>\$ 1,461,092</u>

	Six Months Ended June 30, 2022			
	Business Solutions	Enterprise Solutions	Public Sector Solutions	Total
Notebooks/Mobility	\$ 253,609	\$ 238,747	\$ 124,061	\$ 616,417
Desktops	47,308	97,496	31,255	176,059
Software	74,475	42,582	15,777	132,834
Servers/Storage	51,862	27,228	19,228	98,318
Net/Com Products	47,057	46,435	14,667	108,159
Displays and Sound	63,793	74,811	32,630	171,234
Accessories	67,897	105,735	28,615	202,247
Other Hardware/Services	42,793	51,317	17,475	111,585
Total net sales	<u>\$ 648,794</u>	<u>\$ 684,351</u>	<u>\$ 283,708</u>	<u>\$ 1,616,853</u>

[Table of Contents](#)**Contract Balances**

The following table provides information about contract liabilities from arrangements with customers as of June 30, 2023 and December 31, 2022 (in thousands).

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Contract liabilities, which are included in "Accrued expenses and other liabilities"	\$ 6,563	\$ 4,266

Changes in the contract liability balances during the six months ended June 30, 2023 and 2022 are as follows (in thousands):

	<u>2023</u>
Balance at December 31, 2022	\$ 4,266
Cash received in advance and not recognized as revenue	11,980
Amounts recognized as revenue as performance obligations satisfied	(9,683)
Balance at June 30, 2023	<u>\$ 6,563</u>

	<u>2022</u>
Balance at December 31, 2021	\$ 8,628
Cash received in advance and not recognized as revenue	16,316
Amounts recognized as revenue as performance obligations satisfied	(18,907)
Balance at June 30, 2022	<u>\$ 6,037</u>

**Note 3—Earnings Per Share**

Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributable to non-vested stock units and stock options outstanding, if dilutive.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Numerator:				
Net income	<u>\$ 19,697</u>	<u>\$ 25,398</u>	<u>\$ 33,895</u>	<u>\$ 47,190</u>
Denominator:				
Denominator for basic earnings per share	26,256	26,268	26,291	26,262
Dilutive effect of employee stock awards	109	161	109	155
Denominator for diluted earnings per share	<u>26,365</u>	<u>26,429</u>	<u>26,400</u>	<u>26,417</u>
Earnings per share:				
Basic	<u>\$ 0.75</u>	<u>\$ 0.97</u>	<u>\$ 1.29</u>	<u>\$ 1.80</u>
Diluted	<u>\$ 0.75</u>	<u>\$ 0.96</u>	<u>\$ 1.28</u>	<u>\$ 1.79</u>

For the three and six months ended June 30, 2023 and 2022, the Company had no outstanding non-vested stock units that were excluded from the computation of diluted earnings per share because including them would have had an anti-dilutive effect.

**Note 4—Leases**

The Company leases certain facilities from a related party, which is a company affiliated with us through common ownership. Included in the right-of-use, or ROU, asset as of June 30, 2023 was \$519 and a corresponding lease liability of \$519 associated with related party leases.

[Table of Contents](#)

As of June 30, 2023, there were no additional operating leases that have not yet commenced. Refer to the following table for quantitative information related to the Company's leases for the three and six months ended June 30, 2023 and 2022 (dollars in thousands):

	Three Months Ended June 30, 2023			Six Months Ended June 30, 2023		
	Related Parties	Others	Total	Related Parties	Others	Total
<b>Lease Cost</b>						
Capitalized operating lease cost	\$ 314	\$ 590	\$ 904	\$ 627	\$ 1,299	\$ 1,926
Short-term lease cost	107	115	222	214	136	350
Total lease cost	<u>\$ 421</u>	<u>\$ 705</u>	<u>\$ 1,126</u>	<u>\$ 841</u>	<u>\$ 1,435</u>	<u>\$ 2,276</u>

**Other Information**

Cash paid for amounts included in the measurement of lease liabilities and capitalized operating leases:

Operating cash flows	\$ 314	\$ 602	\$ 916	\$ 627	\$ 1,245	\$ 1,872
----------------------	--------	--------	--------	--------	----------	----------

Weighted-average remaining lease term (in years):

Capitalized operating leases				0.42	3.59	3.33
------------------------------	--	--	--	------	------	------

Weighted-average discount rate:

Capitalized operating leases				3.92%	4.06%	4.04%
------------------------------	--	--	--	-------	-------	-------

	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Related Parties	Others	Total	Related Parties	Others	Total
<b>Lease Cost</b>						
Capitalized operating lease cost	\$ 313	\$ 711	\$ 1,024	\$ 627	\$ 1,419	\$ 2,046
Short-term lease cost	107	21	128	214	42	256
Total lease cost	<u>\$ 420</u>	<u>\$ 732</u>	<u>\$ 1,152</u>	<u>\$ 841</u>	<u>\$ 1,461</u>	<u>\$ 2,302</u>

**Other Information**

Cash paid for amounts included in the measurement of lease liabilities and capitalized operating leases:

Operating cash flows	\$ 313	\$ 747	\$ 1,060	\$ 627	\$ 1,434	\$ 2,061
----------------------	--------	--------	----------	--------	----------	----------

Weighted-average remaining lease term (in years):

Capitalized operating leases				1.42	4.10	3.58
------------------------------	--	--	--	------	------	------

Weighted-average discount rate:

Capitalized operating leases				3.92%	3.91%	3.92%
------------------------------	--	--	--	-------	-------	-------

[Table of Contents](#)

As of June 30, 2023, future lease payments over the remaining term of capitalized operating leases were as follows (in thousands):

<b>For the Years Ended December 31,</b>	<b>Related Parties</b>	<b>Others</b>	<b>Total</b>
2023, excluding the six months ended June 30, 2023	\$ 735	\$ 802	\$ 1,537
2024	163	1,697	1,860
2025	163	1,635	1,798
2026	163	952	1,115
2027	1	232	233
Thereafter	—	340	340
	<u>\$ 1,225</u>	<u>\$ 5,658</u>	<u>\$ 6,883</u>
<b>Imputed interest</b>			<u>(448)</u>
Lease liability balance at June 30, 2023			<u>\$ 6,435</u>

As of June 30, 2023, the ROU asset had a balance of \$5,775. The long-term lease liability was \$4,196 and the short-term lease liability, which is included in accrued expenses and other liabilities in the consolidated balance sheets, was \$2,239. As of June 30, 2022, the ROU asset had a balance of \$8,267. The long-term lease liability was \$5,242 and the short-term lease liability, which is included in accrued expenses and other liabilities in the consolidated balance sheets, was \$3,641.

#### **Note 5—Segment Information**

The internal reporting structure used by the Company’s chief operating decision maker, or CODM, to assess performance and allocate resources determines the basis for the Company’s operating segments. The Company’s CODM is its Chief Executive Officer, and he evaluates operations and allocates resources based on a measure of operating income.

The Company’s operations are organized under three segments—the Business Solutions segment, which serves primarily small- to medium-sized businesses; the Enterprise Solutions segment, which serves primarily medium-to-large corporations; and the Public Sector Solutions segment, which serves primarily federal, state, and local government and educational institutions. In addition, the Headquarters/Other group provides services in areas such as finance, human resources, information technology, or IT, marketing, and product management. Most of the operating costs associated with the Headquarters/Other group functions are charged to the operating segments based on their estimated usage of the underlying functions. The Company reports these charges to the operating segments as “Allocations”. Certain headquarters costs relating to executive oversight and other fiduciary functions that are not allocated to the operating segments are included under the heading of Headquarters/Other in the tables below.

[Table of Contents](#)

Net sales presented below exclude inter-segment product revenues. Segment information applicable to the Company's operating segments for the three and six months ended June 30, 2023 and 2022 is shown below (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
<b>Net sales:</b>				
Business Solutions	\$ 261,027	\$ 328,351	\$ 534,141	\$ 648,794
Enterprise Solutions	287,153	348,954	601,096	684,351
Public Sector Solutions	185,367	151,204	325,855	283,708
Total net sales	<u>\$ 733,547</u>	<u>\$ 828,509</u>	<u>\$ 1,461,092</u>	<u>\$ 1,616,853</u>
<b>Operating income (loss):</b>				
Business Solutions	\$ 18,831	\$ 22,279	\$ 35,384	\$ 42,952
Enterprise Solutions	7,511	15,389	14,033	29,703
Public Sector Solutions	1,650	1,071	1,679	(55)
Headquarters/Other	(2,921)	(3,969)	(7,908)	(7,695)
Total operating income	25,071	34,770	43,188	64,905
Other income, net	1,874	15	3,160	11
Income before taxes	<u>\$ 26,945</u>	<u>\$ 34,785</u>	<u>\$ 46,348</u>	<u>\$ 64,916</u>
Selected operating expense:				
<b>Depreciation and amortization:</b>				
Business Solutions	\$ 158	\$ 168	\$ 317	\$ 335
Enterprise Solutions	423	501	847	1,035
Public Sector Solutions	20	20	39	39
Headquarters/Other	2,493	2,300	4,964	4,571
Total depreciation and amortization	<u>\$ 3,094</u>	<u>\$ 2,989</u>	<u>\$ 6,167</u>	<u>\$ 5,980</u>
<b>Total assets:</b>				
Business Solutions			\$ 472,566	\$ 430,763
Enterprise Solutions			678,104	663,837
Public Sector Solutions			102,652	86,743
Headquarters/Other			(89,047)	(57,710)
Total assets			<u>\$ 1,164,275</u>	<u>\$ 1,123,633</u>

The assets of the Company's three operating segments presented above consist primarily of accounts receivable, net intercompany receivable, goodwill, and other intangibles. Assets reported under the Headquarters/Other group are managed by corporate headquarters, including cash and cash equivalents, inventories, property and equipment, ROU assets, and intercompany balance, net. As of June 30, 2023 and 2022, total assets for the Headquarters/Other group were presented net of intercompany balance eliminations of \$55,432 and \$41,439, respectively. The Company's capital expenditures consist largely of IT hardware and software purchased to maintain or upgrade its management information systems. These information systems serve all of the Company's segments, to varying degrees, and accordingly, the CODM does not evaluate capital expenditures on a segment-by-segment basis.

**Note 6—Commitments and Contingencies**

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

The Company is subject to audits by states on sales and income taxes, employment matters, and other assessments. Additional liabilities for these and other audits could be assessed, but such outcomes are not expected to have a material, adverse impact on the Company's financial position, results of operations, and/or cash flows.

**Note 7—Bank Borrowings**

The Company has a \$50,000 credit facility collateralized by its account receivables that expires March 31, 2025. This facility can be increased, at the Company's option, to \$80,000 for permitted acquisitions or other uses authorized by the lender on substantially the same terms. Amounts outstanding under this facility bear interest at the daily Bloomberg Short-Term Bank Yield Index, or BSBY Rate, plus a spread based on the Company's funded debt ratio, or in the absence of BSBY Rate, the prime rate (8.25% at June 30, 2023). The credit facility includes various customary financial ratios and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and default acceleration provisions. The credit facility does not include restrictions on future dividend payments. Funded debt ratio is the ratio of average outstanding advances under the credit facility for a given quarter to consolidated trailing twelve months Adjusted Earnings Before Interest Expense, Taxes, Depreciation, Amortization, and Special Charges, or Adjusted EBITDA. The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0. Decreases in the Company's consolidated trailing twelve months Adjusted EBITDA could limit its potential borrowing capacity under the credit facility. As of June 30, 2023, the Company was in compliance with all financial covenants contained in the agreement governing the credit facility.

Cash receipts are automatically applied against any outstanding borrowings. During the six months ended June 30, 2023, the Company borrowed incremental amounts that were each repaid in full. These borrowings for the six months ended June 30, 2023 totaled \$67,895; however, at no time were the outstanding borrowings greater than the \$50,000 limit under the credit facility. The Company had no outstanding borrowings under the credit facility as of June 30, 2023 or 2022, and accordingly, the entire \$50,000 credit facility was available for borrowings on such date.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally relate to future events or our future financial or operating performance and may include statements concerning, among other things, financial results, business plans (including statements regarding new products and services we may offer and future expenditures, costs and investments), future liabilities, impairments, competition, and the impact of current macroeconomic conditions on our businesses and results of operations. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “would,” “should,” “expects,” “plans,” “could,” “intends,” “target,” “projects,” “believes,” “estimates,” “anticipates,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. These statements reflect our current views with respect to future events and are based on assumptions as of the date of this report. These statements are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

Such differences may result from actions taken by us, including expense reduction or strategic initiatives (including reductions in force, capital investments and new or expanded product offerings or services), our execution of our business plans (including our inventory management, our cost structure and our management and other personnel decisions) or other business decisions, as well as from developments beyond our control, including

- substantial competition reducing our market share;
- significant price competition reducing our profit margins;
- the loss of any of our major vendors adversely affecting the number of type of products we may offer;
- virtualization of information technology, or IT, resources and applications, including networks, servers, applications, and data storage disrupting or altering our traditional distribution models;
- service interruptions at third-party shippers negatively impacting our ability to deliver the products we offer to our customers;
- increases in shipping and postage costs reducing our margins and adversely affecting our results of operations;
- loss of key persons or the inability to attract, train and retain qualified personnel adversely affecting our ability to operate our business;
- cyberattacks or the failure to safeguard personal information and our IT systems resulting in liability and harm to our reputation; and
- the rate of innovations in the hardware, software and services we offer as well as macroeconomic factors facing the global economy, including disruptions in the capital markets, economic sanctions and economic slowdowns or recessions, rising inflation and changing interest rates have impacted and are expected to continue to impact the level of investment our customers are willing to make in IT products.

Additional factors include those described in our Annual Report on Form 10-K for the year ended December 31, 2022, including under the captions “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business,” in our subsequent quarterly reports on Form 10-Q, including under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in our subsequent filings with the Securities and Exchange Commission.

A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances. You should not place undue reliance on the forward-looking statements. Unless required by law, we assume no obligation to update any of these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated, to reflect circumstances or events that occur after the statements are made.

Unless the context otherwise requires, we use the terms “Connection”, the “Company”, “we”, “us”, and “our” in this Quarterly Report on Form 10-Q to refer to PC Connection, Inc. and its subsidiaries.

## OVERVIEW

We are a Fortune 1000 Global Solutions Provider that simplifies the IT customer experience, guiding the connection between people and technology. Our dedicated account managers partner with customers to design, deploy, and support cutting-edge IT environments using the latest hardware, software, and services. We provide a wide range of IT solutions, from the desktop to the cloud—including computer systems, data center solutions, software and peripheral equipment, networking communications, and other products and accessories that we purchase from manufacturers, distributors, and other suppliers. Our Technology Solutions Group, or TSG, and state-of-the-art Technology Integration and Distribution Center with ISO 9001:2015 certified technical configuration lab offer end-to-end services related to the design, configuration, and implementation of IT solutions. Our team also provides a comprehensive portfolio of managed services and professional services. These services are performed by our personnel and by third-party providers. Our GlobalServe offering ensures worldwide coverage for our multinational customers, delivering global procurement solutions through our network of in-country suppliers in over 150 countries.

The “Connection®” brand includes Connection Business Solutions, Connection Enterprise Solutions, and Connection Public Sector Solutions, which provide IT solutions and services to small- to medium-sized businesses, enterprise, and public sector markets.

Financial results for each of our segments are included in the financial statements attached hereto. We generate sales through (i) outbound telemarketing and field sales contacts by sales representatives focused on the business, educational, healthcare, and government markets, (ii) our websites, and (iii) direct responses from customers responding to our advertising media. We offer a broad selection of over 460,000 products at competitive prices, including products from vendors like Apple, Cisco Systems, Dell, Dell-EMC, Hewlett-Packard Inc., Hewlett-Packard Enterprise, Lenovo, Microsoft, and VMware, and we partner with more than 2,500 suppliers. We are able to leverage our state-of-the-art logistic capabilities to rapidly ship product to customers.

As a value-added reseller in the IT supply chain, we do not manufacture IT hardware or software. We are dependent on our suppliers—manufacturers and distributors that historically have sold only to resellers rather than directly to end users. However, certain manufacturers have, on multiple occasions, sold or attempted to sell directly to our customers, and in some cases, have restricted our ability to sell their products directly to certain customers, thereby attempting to and, in some case successfully, eliminate our role. We believe that the success of these direct sales efforts by manufacturers will depend on their ability to meet our customers’ ongoing demands and provide solutions to meet their needs. We believe more of our customers are seeking out comprehensive and integrated IT solutions, rather than the ability to acquire specific IT products on a one-off basis. Our advantage is our ability to be product-neutral and provide a broader combination of products, services, and advice tailored to customers’ individual needs. By providing customers with customized solutions from a variety of manufacturers, we believe we can mitigate the negative impact of continued direct sales initiatives from individual manufacturers. Through the formation of our TSG, we are able to provide customers complete IT solutions, from identifying their needs, to designing, developing, and managing the integration of products and services to implement their IT projects. Such service offerings carry higher margins than traditional product sales. Additionally, the technical certifications of our service engineers permit us to offer higher-end, more complex products that generally carry higher gross margins. We expect these service offerings and technical certifications to continue to play a role in sales generation and gross margin improvements in this competitive environment.

The primary challenges we continue to face in effectively managing our business are (1) increasing our product and service revenues while at the same time improving our gross margin in all three segments, (2) recruiting, retaining, and improving the productivity of our sales and technical support personnel, and (3) effectively controlling our selling, general and administrative, or SG&A, expenses while making investments in our IT systems and solution selling personnel, especially in relation to changing revenue levels.

To support future growth, we are investing in our IT solutions business, which requires the addition of highly skilled service engineers. Although we expect to realize the ultimate benefit of higher-margin service revenues under this multi-year initiative, we believe that our cost of services will increase as we add additional service engineers. If our service revenues do not grow enough to offset the cost of these headcount additions, our operating results may be negatively impacted.

Market and economic conditions and technology advances significantly affect the demand for our products and services. Virtual delivery of software products and advanced Internet technology providing customers enhanced



[Table of Contents](#)

functionality have substantially increased customer expectations, requiring us to invest on an ongoing basis in our own IT development to meet these new demands.

Our investments in IT infrastructure are designed to enable us to operate more efficiently and provide our customers enhanced functionality.

## RESULTS OF OPERATIONS

The following table sets forth information derived from our statements of income expressed as a percentage of net sales for the periods indicated (dollars in millions):

	Three Months Ended		Six Months Ended June 30,	
	2023	2022	2023	2022
Net sales	\$ 733.5	\$ 828.5	\$ 1,461.1	\$ 1,616.9
Gross margin	17.4 %	16.5 %	17.1 %	16.4 %
Selling, general and administrative expenses	13.8 %	12.3 %	14.0 %	12.4 %
Income from operations	3.4 %	4.2 %	3.0 %	4.0 %

Net sales of \$733.5 million for the second quarter of 2023 reflected a decrease of \$95.0 million, or 11.5% compared to the second quarter of 2022. The decrease was primarily driven by decreases in sales of notebooks/mobility, accessories, displays and sound, desktops, and software of \$57.9 million, \$25.0 million, \$20.1 million, \$19.1 million, and \$7.2 million, respectively, as shown in the table in Note 2 “Revenue” in the Notes to the Unaudited Condensed Consolidated Financial Statements. These decreases were partially offset by increases in sales of net/com products and other hardware/services of \$24.2 million and \$8.0 million, respectively. Gross profit for the second quarter of 2023 decreased year-over-year by \$9.1 million, or 6.7%, to \$127.8 million as illustrated in the table and discussion beginning on page 17 of this Quarterly Report on Form 10-Q. Gross margin increased to 17.4% from 16.5% a year ago. The increase in gross margin was primarily driven by increased net sales of higher margin products, such as software and networking solutions, relative to lower margin products, such as notebooks/mobility and desktops. SG&A expenses decreased year-over-year by \$1.1 million, or 1.1%, to \$101.0 million. The decrease in SG&A expenses was primarily driven by a \$0.9 million decrease in professional fees. SG&A expenses as a percentage of net sales increased to 13.8% compared to 12.3% a year ago. The increase in SG&A expenses as a percentage of net sales is primarily due to the decrease in net sales, as discussed above. Operating income in the second quarter of 2023 decreased year-over-year both in dollars and as a percentage of net sales by \$9.7 million and 80 basis points, respectively, primarily as a result of the decrease in gross profit.

**Net Sales Distribution**

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
<b>Operating Segment</b>				
Enterprise Solutions	39 %	42 %	41 %	42 %
Business Solutions	36	40	37	40
Public Sector Solutions	25	18	22	18
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>
<b>Product Mix</b>				
Notebooks/Mobility	34 %	37 %	35 %	38 %
Desktops	10	11	9	11
Software	9	9	10	8
Servers/Storage	7	6	7	6
Net/Com Products	11	7	10	7
Displays and Sound	9	11	9	11
Accessories	11	13	12	12
Other Hardware/Services	9	6	8	7
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

**Gross Profit Margin**

The following table summarizes our gross margin, as a percentage of net sales, over the periods indicated:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
<b>Operating Segment</b>				
Enterprise Solutions	15.0 %	14.5 %	14.1 %	14.5 %
Business Solutions	23.5	19.9	22.7	19.7
Public Sector Solutions	12.7	13.8	13.4	13.4
Total Company	<u>17.4 %</u>	<u>16.5 %</u>	<u>17.1 %</u>	<u>16.4 %</u>

**Operating Expenses**

The following table reflects our SG&A expenses for the periods indicated (dollars in millions):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Personnel costs	\$ 76.8	\$ 76.8	\$ 156.0	\$ 150.9
Advertising	5.2	5.6	11.8	10.2
Service contracts/subscriptions	5.3	4.9	10.4	9.8
Professional fees	2.9	3.8	6.7	7.8
Depreciation and amortization	3.1	3.0	6.2	6.0
Facilities operations	2.0	2.2	4.2	4.3
Credit card fees	1.7	1.8	3.2	3.5
Other	4.0	4.0	5.7	7.8
Total SG&A expense	<u>\$ 101.0</u>	<u>\$ 102.1</u>	<u>\$ 204.2</u>	<u>\$ 200.3</u>
As a percentage of net sales	<u>13.8 %</u>	<u>12.3 %</u>	<u>14.0 %</u>	<u>12.4 %</u>

**Restructuring and Other Charges**

In the first and second quarters of 2023, we undertook actions to lower our cost structure. In connection with these initiatives, we incurred restructuring and other charges for the three and six months ended June 30, 2023 of \$1.7 million

and \$2.6 million, respectively. These restructuring charges were primarily related to an involuntary reduction in our headquarter workforce and included cash severance and other related termination benefits. These costs will be paid within a year of termination and any unpaid balances are included in accrued expenses and other liabilities as of June 30, 2023. There were no restructuring and other charges recorded in the first or second quarter of 2022. The Company is currently evaluating additional restructuring activities for the third quarter of 2023 and beyond.

### Year-Over-Year Comparisons

In this section and elsewhere in this Quarterly Report on Form 10-Q we refer to changes in year-over-year results. Unless context otherwise requires, such references refer to changes between the three months ended June 30, 2023 and the three months ended June 30, 2022; and changes between the six months ended June 30, 2023 and the six months ended June 30, 2022.

#### **Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022**

Changes in net sales and gross profit by segment are shown in the following table (dollars in millions):

	Three Months Ended June 30,		2022		\$ Change	% Change
	2023		2022			
	Amount	% of Net Sales	Amount	% of Net Sales		
<b>Net Sales:</b>						
Enterprise Solutions	\$ 287.1	39.1 %	\$ 348.9	42.1 %	\$ (61.8)	(17.7)%
Business Solutions	261.0	35.6	328.4	39.6	(67.4)	(20.5)
Public Sector Solutions	185.4	25.3	151.2	18.3	34.2	22.6
Total	<u>\$ 733.5</u>	<u>100.0 %</u>	<u>\$ 828.5</u>	<u>100.0 %</u>	<u>\$ (95.0)</u>	<u>(11.5)%</u>
<b>Gross Profit:</b>						
Enterprise Solutions	\$ 42.9	15.0 %	\$ 50.6	14.5 %	\$ (7.7)	(15.1)%
Business Solutions	61.4	23.5	65.5	19.9	(4.1)	(6.3)
Public Sector Solutions	23.5	12.7	20.8	13.8	2.7	12.8
Total	<u>\$ 127.8</u>	<u>17.4 %</u>	<u>\$ 136.9</u>	<u>16.5 %</u>	<u>\$ (9.1)</u>	<u>(6.7)%</u>

Net sales decreased in the second quarter of 2023 compared to the second quarter of 2022, as explained by the year-over-year changes discussed below:

- Net sales of \$287.1 million for the Enterprise Solutions segment reflect a decrease of \$61.8 million, or 17.7%. The decrease in net sales is primarily due to decreases in net sales of notebooks/mobility, desktops, accessories, and displays and sound of \$29.8 million, \$19.1 million, \$16.6 million, and \$10.4 million, respectively. These decreases were partially offset by increases in net sales of servers/storage and other hardware/services of \$6.8 million and \$6.8 million, respectively.
- Net sales of \$261.0 million for the Business Solutions segment reflect a decrease of \$67.4 million, or 20.5%. The decrease in net sales is primarily due to decreases in net sales of notebooks/mobility, accessories, displays and sound, servers/storage, software, and desktops of \$35.1 million, \$9.2 million, \$7.3 million, \$7.1 million, \$5.7 million, and \$4.7 million, respectively. These decreases were partially offset by an increase in net sales of net/com products of \$4.2 million.
- Net sales of \$185.4 million for the Public Sector Solutions segment reflect an increase of \$34.2 million, or 22.6%. Sales to state and local government and educational institutions increased by \$20.6 million, or 15.7%, compared to the prior year quarter, while sales to the federal government increased by \$13.6 million, or 67.8%. The increase in net sales is primarily due to increases in net sales of net/com products, notebooks/mobility, desktops, other hardware/services, software, and servers/storage of \$15.6 million, \$7.0 million, \$4.7 million, \$3.6 million, \$2.6 million, and \$2.4 million, respectively, partially offset by a decrease in net sales of displays and sound of \$2.4 million.

[Table of Contents](#)

Gross profit for the second quarter of 2023 decreased year-over-year, while gross margin for the second quarter of 2023 increased year-over-year, as explained by the year-over-year changes discussed below:

- Gross profit for the Enterprise Solutions segment decreased primarily due to the decrease in net sales as discussed in the preceding paragraph. Gross margin increased by 50 basis points primarily due to an increase in the amount of software sales recognized on a net basis.
- Gross profit for the Business Solutions segment decreased primarily due to the decrease in net sales as discussed in the preceding paragraph. Gross margin increased by 360 basis points primarily due to a shift in product mix to higher-margin sales of datacenter products including software, networking, and servers as shown in the table in Note 2 “Revenue” in the Notes to the Unaudited Condensed Consolidated Financial Statements and the product mix table on page 16 during the second quarter of 2023. The increase is also attributable to an increase in the amount of software sales recognized on a net basis.
- Gross profit for the Public Sector Solutions segment increased primarily due to the increase in net sales as discussed in the preceding paragraph. Gross margin decreased by 110 basis points primarily due to an increase in sales of lower-margin notebooks/mobility and desktops as shown in the table in Note 2 “Revenue” in the Notes to the Unaudited Condensed Consolidated Financial Statements and the product mix table on page 16.

Selling, general and administrative expenses in the second quarter of 2023 decreased in dollars but increased as a percentage of net sales compared to the second quarter of 2022. SG&A expenses attributable to our three segments and the remaining unallocated Headquarters/Other group expenses are summarized in the table below (dollars in millions):

	Three Months Ended June 30,					
	2023			2022		
	Amount	% of Segment Net Sales	Amount	% of Segment Net Sales	\$ Change	% Change
Enterprise Solutions	\$ 34.4	12.0 %	\$ 35.2	10.1 %	\$ (0.8)	(2.5)%
Business Solutions	42.5	16.3	43.2	13.2	(0.7)	(1.7)
Public Sector Solutions	21.8	11.7	19.7	13.0	2.1	10.3
Headquarters/Other, unallocated	2.3		4.0		(1.7)	(40.3)
Total	<u>\$ 101.0</u>	<u>13.8 %</u>	<u>\$ 102.1</u>	<u>12.3 %</u>	<u>\$ (1.1)</u>	<u>(1.1)%</u>

- SG&A expenses for the Enterprise Solutions segment decreased year-over-year in dollars but increased as a percentage of net sales. The year-over-year change in SG&A dollars was primarily attributable to decreased personnel costs. SG&A expenses as a percentage of net sales were 12.0% for the Enterprise Solutions segment in the second quarter of 2023, which reflects an increase of 190 basis points and is primarily due to the decrease in net sales, as discussed above.
- SG&A expenses for the Business Solutions segment decreased year-over-year in dollars but increased as a percentage of net sales. The year-over-year change in SG&A dollars was primarily driven by a \$1.2 million decrease in advertising costs. SG&A expenses as a percentage of net sales were 16.3% for the Business Solutions segment in the second quarter of 2023, which reflects an increase of 310 basis points and is primarily due to the decrease in net sales, as discussed above.
- SG&A expenses for the Public Sector Solutions segment increased year-over-year in dollars but decreased as a percentage of net sales. The increase in SG&A dollars was primarily driven by a \$1.8 million increase in personnel costs related to investments in resources to strengthen our sales organization. SG&A expenses as a percentage of net sales were 11.7% for the Public Sector Solutions segment in the second quarter of 2023, which reflects a decrease of 130 basis points and is primarily due to the increase in net sales, as discussed above.
- SG&A expenses for the Headquarters/Other group decreased year-over-year by \$1.7 million primarily due to decreases in personnel costs, professional fees, and other expenses of \$1.5 million, \$1.0 million, and \$0.8 million, respectively. These decreases were partially offset by an increase in unallocated Headquarter overhead costs year-over-year of \$1.1 million. The Headquarters/Other group provides services to the three segments in

areas such as finance, distribution center, human resources, IT, marketing, and product management. Most of the operating costs associated with such corporate Headquarters services are charged to the segments based on their estimated allocation usage of the underlying services.

*Restructuring and other charges* for the second quarter of 2023 were \$1.7 million, which were primarily related to an involuntary reduction in our headquarter workforce and included cash severance and other related termination benefits. There were no such charges incurred in the second quarter of 2022.

*Income from operations* for the second quarter of 2023 decreased to \$25.1 million, compared to \$34.8 million for the second quarter of 2022, primarily due to a decrease in gross profit. Income from operations as a percentage of net sales was 3.4% for the second quarter of 2023, compared to 4.2% for the prior year quarter, primarily due to a 6.7% decrease in gross profit.

*Income taxes.* Our provision for income taxes in the second quarter of 2023 was \$7.2 million, compared to \$9.4 million for the second quarter of 2022, primarily due to the decrease in operating income. Our effective tax rate was 26.9% for the quarter ended June 30, 2023, compared to 27.0% for the quarter ended June 30, 2022.

*Net income* for the second quarter of 2023 decreased to \$19.7 million, compared to \$25.4 million for the second quarter of 2022, primarily due to the \$9.7 million, or 27.9%, decrease in operating income.

**Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022**

Changes in net sales and gross profit by segment are shown in the following table (dollars in millions):

	Six Months Ended June 30,		Six Months Ended June 30,		\$ Change	% Change
	2023	% of Net Sales	2022	% of Net Sales		
<b>Net Sales:</b>						
Enterprise Solutions	\$ 601.1	41.1 %	\$ 684.4	42.3 %	\$ (83.3)	(12.2)%
Business Solutions	534.1	36.6	648.8	40.1	(114.7)	(17.7)
Public Sector Solutions	325.9	22.3	283.7	17.6	42.2	14.9
Total	<u>\$ 1,461.1</u>	<u>100.0 %</u>	<u>\$ 1,616.9</u>	<u>100.0 %</u>	<u>\$ (155.8)</u>	<u>(9.6)%</u>
<b>Gross Profit:</b>						
Enterprise Solutions	\$ 85.0	14.1 %	\$ 99.5	14.5 %	\$ (14.5)	(14.5)%
Business Solutions	121.3	22.7	127.6	19.7	(6.3)	(5.0)
Public Sector Solutions	43.8	13.4	38.1	13.4	5.7	14.9
Total	<u>\$ 250.1</u>	<u>17.1 %</u>	<u>\$ 265.2</u>	<u>16.4 %</u>	<u>\$ (15.1)</u>	<u>(5.7)%</u>

*Net sales* decreased for the six months ended June 30, 2023 compared to the six months ended June 30, 2022, as explained by the year-over-year changes discussed below:

- Net sales of \$601.1 million for the Enterprise Solutions segment reflect a decrease of \$83.3 million, or 12.2%. The decrease in net sales is primarily due to decreases in net sales of notebooks/mobility, desktops, displays and sound, and accessories of \$36.8 million, \$33.8 million, \$20.8 million, and \$17.0 million, respectively. These decreases were partially offset by increases in net sales of software, other hardware/services, and servers/storage of \$14.2 million, \$4.2 million, and \$4.0 million, respectively.
- Net sales of \$534.1 million for the Business Solutions segment reflect a decrease of \$114.7 million, or 17.7%. The decrease in net sales is primarily due to decreases in net sales of notebooks/mobility, displays and sound, accessories, desktops, software, and servers/storage of \$70.1 million, \$17.3 million, \$12.7 million, \$9.5 million, \$6.1 million, and \$5.0 million, respectively. These decreases were partially offset by an increase in net sales of net/com products of \$9.8 million.
- Net sales of \$325.9 million for the Public Sector Solutions segment reflect an increase of \$42.2 million, or 14.9%. Sales to state and local government and educational institutions increased by \$2.1 million, or 0.9%, while sales to the federal government increased by \$40.0 million, or 78.8%. The increase in net sales is

[Table of Contents](#)

primarily due to increases in net sales of net/com products, other hardware/services, software, servers/storage, and notebooks/mobility of \$20.9 million, \$9.6 million, \$7.2 million, \$2.7 million, and \$1.9 million, respectively, partially offset by a decrease in displays and sound of \$2.6 million.

Gross profit for the six months ended June 30, 2023 decreased year-over-year, while gross margin for the six months ended June 30, 2023 increased year-over-year, as explained by the year-over-year changes discussed below:

- Gross profit for the Enterprise Solutions segment decreased primarily due to the decrease in net sales as discussed in the preceding paragraph. Gross margin decreased by 40 basis points primarily due to a few low-margin customer contracts, which was partially offset by an increase in the amount of software sales recognized on a net basis, as well as increases in sales of higher-margin net/com products and servers/storage during the six months ended June 30, 2023 as shown in the table in Note 2 “Revenue” in the Notes to the Unaudited Condensed Consolidated Financial Statements and the product mix table on page 16.
- Gross profit for the Business Solutions segment decreased primarily due to the decrease in net sales as discussed in the preceding paragraph. Gross margin increased by 300 basis points primarily due to a shift in product mix to higher-margin sales of datacenter products including software, networking, and services as shown in the table in Note 2 “Revenue” in the Notes to the Unaudited Condensed Consolidated Financial Statements and the product mix table on page 16 for the six months ended June 30, 2023. The increase is also attributable to an increase in the amount of software sales recognized on a net basis.
- Gross profit for the Public Sector Solutions segment increased primarily due to the increase in net sales as discussed in the preceding paragraph. Gross margin remained consistent year-over-year.

Selling, general and administrative expenses for the six months ended June 30, 2023 increased in dollars as well as a percentage of net sales compared to the six months ended June 30, 2022. SG&A expenses attributable to our three segments and the remaining unallocated Headquarters/Other group expenses are summarized in the table below (dollars in millions):

	Six Months Ended June 30,					
	2023		2022		\$ Change	% Change
	Amount	% of Segment Net Sales	Amount	% of Segment Net Sales		
Enterprise Solutions	\$ 69.9	11.6 %	\$ 69.8	10.2 %	\$ 0.1	0.2 %
Business Solutions	85.8	16.1	84.7	13.1	1.1	1.4
Public Sector Solutions	42.0	12.9	38.1	13.4	3.9	10.2
Headquarters/Other, unallocated	6.5		7.7		(1.2)	(16.0)
Total	<u>\$ 204.2</u>	14.0 %	<u>\$ 200.3</u>	12.4 %	<u>\$ 3.9</u>	<u>2.0 %</u>

- SG&A expenses for the Enterprise Solutions segment remained consistent year-over-year in dollars and increased as a percentage of net sales. The year-over-year change in SG&A dollars was primarily attributable to an increase in advertising costs of \$1.8 million, partially offset by decreases in bad debt expense, personnel costs, and depreciation and amortization, and other expenses of \$0.8 million, \$0.7 million, and \$0.2 million, respectively. SG&A expenses as a percentage of net sales were 11.6% for the Enterprise Solutions segment for the six months ended June 30, 2023, which reflects an increase of 140 basis points and is primarily due to the decrease in net sales, as discussed above.
- SG&A expenses for the Business Solutions segment increased year-over-year in dollars as well as a percentage of net sales. The year-over-year change in SG&A dollars was primarily driven by a \$1.9 million increase in personnel costs related to investments in resources to strengthen our sales organization. This increase was partially offset by a \$0.8 million decrease in advertising costs. SG&A expenses as a percentage of net sales were 16.1% for the Business Solutions segment for the six months ended June 30, 2023, which reflects an increase of 300 basis points and is primarily due to the decrease in net sales, as discussed above.
- SG&A expenses for the Public Sector Solutions segment increased year-over-year in dollars but decreased as a percentage of net sales. The increase in SG&A dollars was primarily driven by a \$3.1 million increase in personnel costs related to investments in resources to strengthen our sales organization. The increase in SG&A

dollars is also attributable to an increase in bad debt expense of \$0.4 million. SG&A expenses as a percentage of net sales were 12.9% for the Public Sector Solutions segment for the six months ended June 30, 2023, which reflects a decrease of 50 basis points and is primarily due to the increase in net sales, as discussed above.

- SG&A expenses for the Headquarters/Other group decreased year-over-year by \$1.2 million primarily due to decreases in other expenses and professional fees of \$1.7 million and \$1.1 million, respectively. These decreases were partially offset by increases in service contracts/subscriptions, personnel costs, and depreciation and amortization of \$0.7 million, \$0.7 million, and \$0.4 million, respectively.

*Restructuring and other charges* for the six months ended June 30, 2023 were \$2.6 million, which were primarily related to an involuntary reduction in our headquarter workforce and included cash severance and other related termination benefits. There were no such charges incurred for the six months ended June 30, 2022.

*Income from operations* for the six months ended June 30, 2023 decreased to \$43.2 million, compared to \$64.9 million for the six months ended June 30, 2022, primarily due to a decrease in gross profit combined with an increase in SG&A expenses. Income from operations as a percentage of net sales was 3.0% for the six months ended June 30, 2023, compared to 4.0% for the six months ended June 30, 2022, primarily due to a 5.7% decrease in gross profit combined with a 2.0% increase in SG&A expenses.

*Income taxes.* Our provision for income taxes six months ended June 30, 2023 was \$12.5 million, compared to \$17.7 million for the six months ended June 30, 2022, primarily due to the decrease in operating income. Our effective tax rate was 26.9% for the six months ended June 30, 2023, compared to 27.3% for the six months ended June 30, 2022.

*Net income* for the six months ended June 30, 2023 decreased to \$33.9 million, compared to \$47.2 million for the six months ended June 30, 2022, primarily due to the \$21.7 million, or 33.5%, decrease in operating income.

## **Liquidity and Capital Resources**

Our primary sources of liquidity have historically been internally generated funds from operations and borrowings under our credit facility. We have historically used and expect to use in the future those funds to meet our capital requirements, which consist primarily of working capital for operational needs, capital expenditures for computer equipment and software used in our business, repurchases of our common stock for treasury, dividend payments, and as opportunities arise, possible acquisitions of new businesses.

We believe that funds generated from operations, together with the available credit under our credit facility, will be sufficient to finance our working capital, capital expenditures, and other requirements for at least the next twelve calendar months. Our investments in IT systems and infrastructure are designed to enable us to operate more efficiently and to provide our customers enhanced functionality.

We expect to meet our cash requirements for the next twelve months and beyond through a combination of cash on hand, cash generated from operations, and borrowings under our credit facility, as follows:

- *Cash and Cash Equivalents.* At June 30, 2023, we had \$244.0 million in cash and cash equivalents.
- *Cash Generated from Operations.* We expect to generate cash flows from operations in excess of operating cash needs by generating earnings and managing net changes in inventories and receivables with changes in payables to generate positive cash flow.
- *Credit Facility.* As of June 30, 2023, no borrowings were outstanding under our \$50.0 million credit facility, which is available until March 31, 2025. Accordingly, our entire line of credit was available for borrowing as of June 30, 2023. This maximum borrowing capacity under our credit facility can be increased, at our option, to up to \$80.0 million for approved acquisitions or other uses authorized by the bank. Borrowings are, however, limited by certain minimum collateral and earnings requirements, as described more fully below. As of June 30, 2023, we were in compliance with all of the covenants under our credit facility.

Our ability to continue funding our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from

other sources of financing, as may be required. While we do not anticipate needing any additional sources of financing to fund our operations at this time, if demand for IT products declines, or our customers are materially adversely impacted by the developing macroeconomic trends characterized by inflation and increased interest rates, our cash flows from operations may be substantially affected.

### **Dividends**

A summary of 2023 dividend activity for our common stock is as follows:

<b>Dividend Amount</b>	<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>
\$ 0.08	February 9, 2023	February 21, 2023	March 10, 2023
\$ 0.08	May 4, 2023	May 16, 2023	June 2, 2023

On August 2, 2023, we announced that our Board of Directors declared a quarterly cash dividend on our common stock of \$0.08 per share. The dividend will be paid on September 1, 2023 to all stockholders of record as of the close of business on August 15, 2023. The declaration and payment of any future dividends is at the discretion of our Board of Directors and will depend upon our financial position, strategic plans, general business conditions and any other factors deemed relevant by our Board of Directors.

### **Summary of Sources and Uses of Cash**

Cash flows from operating, investing and financing activities for the six months ended June 30, 2023 and 2022, as reflected in the Unaudited Condensed Consolidated Statements of Cash Flows included in Item 1 of this Quarterly Report on Form 10-Q, are summarized in the following table (dollars in millions):

	<b>Six Months Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
Net cash provided by (used in) operating activities	\$ 135.4	\$ (8.4)
Net cash used in investing activities	(4.8)	(4.6)
Net cash used in financing activities	(9.5)	(0.4)
Increase (decrease) in cash and cash equivalents	<u>\$ 121.1</u>	<u>\$ (13.4)</u>

Cash provided by operating activities was \$135.4 million for the six months ended June 30, 2023. Cash provided by operating activities resulted primarily from \$33.9 million of net income, as well as a decrease in inventory and an increase in accounts payable of \$48.9 million and \$44.6 million, respectively. A decrease in accounts receivable of \$16.4 million and other non-cash activities added back to income of \$11.5 million, including \$6.2 million of depreciation and amortization and \$3.6 million of stock-based compensation expense, also contributed to the positive inflow of cash for the six months ended June 30, 2023. These inflows were partially offset by an increase in prepaid expenses, income tax receivable, and other current assets of \$13.7 million, as well as a decrease in accrued expenses and other liabilities of \$6.4 million. The decrease in inventory was primarily due to a decrease in the amount of inventory we purchased, combined with the delivery of inventory held associated with the continued fulfillment of orders in backlog during the first six months of 2023. The increase in accounts payable was primarily driven by the timing of payments and is consistent with the increase in days of purchases outstanding shown below. For the six months ended June 30, 2022, cash used in operating activities resulted primarily from a \$16.6 million increase in inventory, a \$38.1 million increase in accounts receivable, and a \$8.0 million decrease in accounts payable and accrued expenses and other liabilities. These cash outflows were partially offset by net income of \$47.2 million and non-cash items added back to net income of \$10.4 million.



## [Table of Contents](#)

In order to manage our working capital and operating cash needs, we monitor our cash conversion cycle, defined as days of sales outstanding in accounts receivable plus days of supply in inventory minus days of purchases outstanding in accounts payable, based on a rolling three-month average. Components of our cash conversion cycle are as follows:

(in days)	June 30,	
	2023	2022
Days of sales outstanding (DSO) <sup>(1)</sup>	68	66
Days of supply in inventory (DIO) <sup>(2)</sup>	24	29
Days of purchases outstanding (DPO) <sup>(3)</sup>	(42)	(37)
Cash conversion cycle	50	58

- (1) Represents the trade receivable at the end of the quarter divided by average daily net sales for the same three-month period.
- (2) Represents the inventory balance at the end of the quarter divided by average daily cost of sales for the same three-month period.
- (3) Represents the accounts payable balance at the end of the quarter divided by average daily cost of sales for the same three-month period.

The cash conversion cycle decreased to 50 days at June 30, 2023, compared to 58 days at June 30, 2022. The increase in DSO is primarily a function of netted products recorded in accounts receivable on a gross basis, while the revenue is recorded on a net basis. The decrease in DIO is consistent with the decrease in inventory for the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The increase in DPO is consistent with the decrease in cost of sales for the quarter ended June 30, 2023 compared to the quarter ended June 30, 2022.

*Cash used in investing activities* for the six months ended June 30, 2023 represents \$4.8 million of purchases of property and equipment. These expenditures were primarily for computer equipment and capitalized internally developed software in connection with investments in our IT infrastructure. In the prior year period, we made similar investments of \$4.6 million in purchases of property and equipment.

*Cash used in financing activities* for the six months ended June 30, 2023 consisted of \$67.9 million of aggregate borrowings and repayments, \$5.4 million of treasury purchases, \$4.2 million of \$0.08 per share dividend payments, \$0.5 million of issuances of stock under the Employee Stock Purchase Plan, and \$0.5 million payments of payroll taxes on stock-based compensation through shares withheld. In the prior year period, financing activities primarily consisted of \$0.4 million payments of payroll taxes on stock-based compensation through shares withheld.

### ***Debt Instruments, Contractual Agreements, and Related Covenants***

Below is a summary of certain provisions of our credit facility and other contractual obligations. For more information about the restrictive covenants in our credit facility, see “Factors Affecting Sources of Liquidity” below. For more information about our obligations, commitments, and contingencies, see our condensed consolidated financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q.

*Credit Facility.* Our credit facility extends until March 2025 and is collateralized by our accounts receivable. As of June 30, 2023, our borrowing capacity under the credit facility was up to \$50.0 million. Amounts outstanding under this facility bear interest at the greatest of (i) the prime rate (8.25% at June 30, 2023), (ii) the federal funds effective rate plus 0.50% per annum, and (iii) the daily BSBY Rate, plus 1.00% per annum, provided that the rate shall at no time be less than 0% per annum. In addition, we have the ability to increase our borrowing capacity under the credit facility by up to an additional \$30.0 million provided that we meet certain additional borrowing requirements and obtain the consent of the administrative agent. Our credit facility is subject to certain covenant requirements which are described below under “Factors Affecting Sources of Liquidity”. We did not have any borrowings outstanding under the credit facility as of June 30, 2023.

Cash receipts are automatically applied against any outstanding borrowings. Any excess cash on account may either remain on account to generate earned credits to offset up to 100% of cash management fees, or may be invested in short-

term qualified investments. Borrowings under the credit facility are classified as current in our condensed consolidated balance sheet. As of June 30, 2023, the entire \$50.0 million facility was available for borrowing.

*Operating Leases.* We lease facilities from a related party, which is a company affiliated with us through common ownership, and facilities from third parties under non-cancelable operating leases. Certain leases require us to pay real estate taxes, insurance, and common area maintenance charges.

### ***Factors Affecting Sources of Liquidity***

*Internally Generated Funds.* The key factors affecting our internally generated funds are our ability to manage costs and fully achieve our operating efficiencies, timely collection of our customer receivables, and management of our inventory levels.

*Credit Facility.* Our credit facility extends until March 2025 and is collateralized by our accounts receivable. As of June 30, 2023, the entire \$50.0 million facility was available for borrowing. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Any failure to comply with these covenants would constitute a default and could prevent us from borrowing additional funds under this line of credit. This line of credit contains two financial tests:

- The funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by the consolidated trailing twelve months Adjusted EBITDA for the trailing four quarters) must not be more than 2.0 to 1.0. We did not have any outstanding borrowings under our line of credit as of June 30, 2023, and accordingly, the funded debt ratio did not limit potential borrowings as of June 30, 2023. Future decreases in our consolidated trailing twelve months Adjusted EBITDA could limit our potential borrowings under the line of credit.
- Minimum consolidated net worth (defined as our consolidated total assets less our consolidated total liabilities) must be at least \$346.7 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended December 31, 2016 (loss quarters not counted). Such amount was calculated as \$578.4 million at June 30, 2023, whereas our actual consolidated stockholders' equity at that date was \$794.1 million.

*Capital Markets.* Our ability to raise additional funds in the capital market depends upon, among other things, general economic conditions, the condition of the IT industry, our financial performance and stock price, and the state of the capital markets. In addition, market volatility, inflation and interest rate fluctuations may increase our cost of financing or restrict our access to potential sources of future liquidity.

### **APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our critical accounting policies and estimates have not materially changed from those discussed in our Annual Report on Form 10-K for the year ended December 31, 2022.

### **RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS**

Recently issued financial accounting standards are detailed in Note 1, "Basis of Presentation," in the Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For a description of our market risks, see Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the year ended December 31, 2022. No material changes related to our market risks have occurred since December 31, 2022.

## **Item 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2023. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II —OTHER INFORMATION

### Item 1. Legal Proceedings

For information related to legal proceedings, see the discussion in Note 6 - “Commitments and Contingencies” in the Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which information is incorporated by reference into this Part II, Item 1.

### Item 1A. Risk Factors

#### **We may face risks associated with our use of certain artificial intelligence and machine learning models**

Our business utilizes artificial intelligence and machine learning technologies, which are offered by third parties, to add AI-based applications to our offerings and to drive efficiencies in our business. As with many technological innovations, artificial intelligence presents risks and challenges that could affect its adoption, and therefore our business. Our offerings utilize machine learning algorithms, predictive analytics, and other artificial intelligence technologies. If these artificial intelligence or machine learning models are incorrectly designed, the performance of our products, services, and business, as well as our reputation, could suffer or we could incur liability through the violation of laws or contracts to which we are a party.

Additionally, we are making, and plan to make in the future, investments in adopting artificial intelligence and machine learning technologies across our business. Artificial intelligence and machine learning technologies are complex and rapidly evolving, and we face significant competition from other companies in our industry as well as an evolving regulatory landscape. These efforts, including the introduction of new products or changes to existing products, may result in new or enhanced governmental or regulatory scrutiny, litigation, ethical concerns, or other complications that could adversely affect our business, reputation, or financial results. Changes to existing regulations, their interpretation or implementation or new regulations could impede our use of artificial intelligence and machine learning technology, and also may increase our estimated costs in this area. In addition, market acceptance of artificial intelligence and machine learning technologies is uncertain, and we may be unsuccessful in our product development efforts. Any of these factors could adversely affect our business, financial condition, and results of operations.

In addition to other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, which could materially affect our business, financial position, and results of operations. Risk factors which could cause actual results to differ materially from those suggested by forward-looking statements include but are not limited to those discussed or identified in this document, in our other public filings with the SEC, and those contained in Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2022, incorporated by reference herein.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases under our stock repurchase program are made from time to time at management's discretion in accordance with applicable federal securities laws. All repurchases of our common stock have been recorded as treasury stock. The following table summarizes information relating to purchases of common stock made by or on our behalf during the quarter ended June 30, 2023 (dollars in millions, except per share data):

Issuer Purchases of Equity Securities				
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) (1)(2)
04/01/23-04/30/23	19,625	\$ 40.10	19,625	\$ 33.5
05/01/23-05/31/23	29,913	39.52	29,913	\$ 32.3
06/01/23-06/30/23	—	—	—	\$ 32.3
	<u>49,538</u>	<u>\$ 39.75</u>	<u>49,538</u>	

- (1) We have repurchased in aggregate approximately 2.7 million shares of our common stock for approximately \$47.7 million pursuant to the repurchase program approved by the Board of Directors.
- (2) On March 28, 2001, our Board of Directors authorized the spending of up to \$15.0 million to repurchase shares of our common stock. On each of February 11, 2014, December 17, 2018, and November 22, 2022, our Board of Directors approved increases of \$15.0 million, \$25.0 million, and \$25.0 million, respectively, to the repurchase program bringing the aggregate authorized amount under the repurchase program to \$80.0 million. There is no fixed termination date for this repurchase program. Purchases may be made in open-market transactions, block transactions on or off an exchange, or in privately negotiated transactions. The timing and amount of any share repurchases will be based on market conditions and other factors. As of June 30, 2023, the Company has \$32.3 million available for repurchases under the Company's existing Board-authorized program.

## Item 5. Other Information

### Director and Officer Trading Arrangements

None of our directors or officers (as defined in Rule 16a-1(f)) adopted or terminated a Rule 10b5-1 trading agreement or a non-Rule 10b5-1 trading agreement (as defined in Item 408(c) of Regulation S-K) during the second quarter of 2023.

**Item 6 - Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of PC Connection, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Company's registration statement on Form S-4 (333-63272) filed on June 19, 2001).</a>
3.2	<a href="#">Amended and Restated Bylaws of PC Connection, Inc. (incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K, filed on January 9, 2008).</a>
10.1 *	<a href="#">2020 Stock Incentive Plan, as amended.</a>
10.2 *	<a href="#">Fourth Amendment to the Third Amended and Restated Credit and Security Agreement, dated as of June 13, 2023, by and among PC Connection, Inc., as Borrower, GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc. and GlobalServe, Inc., as Guarantors, and Citizens Bank, N.A., as Lender and Agent.</a>
31.1 **	<a href="#">Certification of the Company's President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2 **	<a href="#">Certification of the Company's Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1 **	<a href="#">Certification of the Company's President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2 **	<a href="#">Certification of the Company's Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS **	Inline XBRL Instance Document* - The Instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL**	Inline XBRL Taxonomy Calculation Linkbase Document.
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE **	Inline XBRL Taxonomy Presentation Linkbase Document.
104 **	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).

\* Management contract or compensatory plan or arrangement and submitted electronically herewith.

\*\* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at June 30, 2023 and December 31, 2022, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2023 and 2022, (iii) Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2023 and 2022, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2023 and 2022, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

**SIGNATURES**

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

**PC CONNECTION, INC.**

Date: August 2, 2023

By: /s/ TIMOTHY J. MCGRATH

Timothy J. McGrath  
President and Chief Executive Officer  
(Duly Authorized Officer)

Date: August 2, 2023

By: /s/ THOMAS C. BAKER

Thomas C. Baker  
Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)



AMENDMENT NO. 2 TO  
2020 STOCK INCENTIVE PLAN

The 2020 Stock Incentive Plan (the “Plan”) of PC Connection, Inc. is hereby further amended as follows:

1. The first sentence of Section 4(a)(1)(A) is hereby deleted in its entirety and the following is inserted in lieu thereof:

“700,000 shares of Common Stock; and.”

Except as set forth above, the remainder of the Plan remains in full force and effect.

Adopted by the Board of Directors on March 6, 2023.

**Approved by shareholders on May 17, 2023.**

---

AMENDMENT NO. 1 TO

2020 STOCK INCENTIVE PLAN

The 2020 Stock Incentive Plan (the “Plan”) of PC Connection, Inc. is hereby further amended as follows:

1. The first sentence of Section 4(a)(1)(A) is hereby deleted in its entirety and the following is inserted in lieu thereof:

“450,000 shares of Common Stock; and.”

Except as set forth above, the remainder of the Plan remains in full force and effect.

Adopted by the Board of Directors on March 25, 2022.

**Approved by shareholders on May 18, 2022.**

---

## 2020 STOCK INCENTIVE PLAN

1. Purpose

The purpose of this 2020 Stock Incentive Plan (the “**Plan**”) of PC Connection, Inc., a Delaware corporation (the “**Company**”), is to advance the interests of the Company’s stockholders by enhancing the Company’s ability to attract, retain and motivate persons who are expected to make important contributions to the Company and by providing such persons with equity ownership opportunities and equity performance-based incentives that are intended to better align the interests of such persons with those of the Company’s stockholders. Except where the context otherwise requires, the term “**Company**” shall include any of the Company’s present or future parent or subsidiary corporations as defined in Sections 424(e) or (f) of the Internal Revenue Code of 1986, as amended, and any regulations thereunder (the “**Code**”) and any other business venture (including, without limitation, joint venture or limited liability company) in which the Company has a controlling interest, as determined by the Board of Directors of the Company (the “**Board**”); *provided, however*, that such other business ventures shall be limited to entities that, where required by Section 409A of the Code, are eligible issuers of service recipient stock (as defined in Treas. Reg. Section 1.409A-1(b)(5)(iii)(E), or applicable successor regulation).

2. Eligibility

All of the Company’s employees, officers and directors, as well as consultants and advisors to the Company (as the terms consultants and advisors are defined and interpreted for purposes of Form S-8 under the Securities Act of 1933, as amended (the “*Securities Act*”), or any successor form) are eligible to be granted Awards (as defined below) under the Plan. Each person who is granted an Award under the Plan is deemed a “*Participant*.” The Plan provides for the following types of awards, each of which is referred to as an “*Award*”: Options (as defined in Section 5), SARs (as defined in Section 6), Restricted Stock (as defined in Section 7), RSUs (also as defined in Section 7) and Other Stock-Based and Cash-Based Awards (as defined in Section 8). Except as otherwise provided by the Plan, each Award may be made alone or in addition or in relation to any other Award. The terms of each Award need not be identical, and the Board need not treat Participants uniformly.

3. Administration and Delegation

- (a) Administration by Board of Directors. The Plan will be administered by the Board. The Board shall have authority to grant Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Plan as it shall deem advisable. The Board may construe and interpret the terms of the Plan and any Award agreements entered into under the Plan. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award. All actions and decisions by the Board with respect to the Plan and any Awards shall be made in the Board’s discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Award.
  - (b) Appointment of Committees. To the extent permitted by applicable law, the Board may delegate any or all of its powers under the Plan to one or more committees or subcommittees of the Board (a “*Committee*”). All references in the Plan to the “*Board*” shall mean the Board or a Committee of the Board or the officers referred to in Section 3(c) to the extent that the Board’s powers or authority under the Plan have been delegated to such Committee or officers.
  - (c) Delegation to Officers. Subject to any requirements of applicable law (including as applicable Sections 152 and 157(c) of the General Corporation Law of the State of Delaware), the Board may delegate to one or more officers of the Company the power to grant Awards (subject to any limitations under the Plan) to employees or officers of the Company and to exercise such other powers under the Plan as the Board may determine, provided that the Board shall fix the terms of Awards to be granted by such officers, the maximum number of shares subject to Awards that the officers may grant, and the time period in which such Awards may be granted; and provided further, that no officer shall be authorized to grant Awards to any “executive officer” of the Company (as defined by Rule 3b-7 under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”)) or to any “officer” of the Company (as defined by Rule 16a-1(f) under the Exchange Act).
  - (d) Awards to Non-Employee Directors. Awards to non-employee directors will be administered by a Committee, all of the members of which are independent directors as defined by Section 5605(a)(2) of the NASDAQ Stock Market (“*NASDAQ*”) Marketplace Rules.
-

4. Stock Available for Awards

(a) Number of Shares; Share Counting.

(1) Authorized Number of Shares. Subject to adjustment under Section 10, Awards may be made under the Plan for up to a number of shares of Common Stock, \$0.01 par value per share, of the Company (the “*Common Stock*”), as is equal to the sum of:

(A) 350,000 shares of Common Stock; and

(B) such additional number of shares of Common Stock (up to 552,500) as is equal to the sum of (x) the number of shares of Common Stock reserved for issuance under the Company’s Amended and Restated 2007 Stock Incentive Plan (the “*Existing Plan*”) that remain available for grant under the Existing Plan on May 26, 2020, the day that the Existing Plan expires, and the day prior to the date that the Plan is approved by the Company’s stockholders (the “*Effective Date*”) and (y) the number of shares of Common Stock subject to awards granted under the Existing Plan which awards expire, terminate or are otherwise surrendered, cancelled, forfeited or repurchased by the Company at their original issuance price pursuant to a contractual repurchase right (subject, however, in the case of Incentive Stock Options to any limitations under the Code).

Any or all of the shares of Common Stock available for issuance under the Plan may be awarded in the form of Incentive Stock Options (as defined in Section 5(b)). Shares of Common Stock issued under the Plan may consist in whole or in part of authorized but unissued shares or treasury shares.

(2) Share Counting. For purposes of counting the number of shares available for the grant of Awards under the Plan under this Section 4(a) and under the sublimits contained in Section 4(b):

(A) all shares of Common Stock covered by SARs shall be counted against the number of shares available for the grant of Awards under the Plan and against the sublimits contained in Section 4(b); *provided, however,* that (i) SARs that may be settled only in cash shall not be so counted and (ii) if the Company grants an SAR in tandem with an Option for the same number of shares of Common Stock and provides that only one such Award may be exercised (a “*Tandem SAR*”), only the shares covered by the Option, and not the shares covered by the Tandem SAR, shall be so counted, and the expiration of one in connection with the other’s exercise will not restore shares to the Plan;

(B) to the extent that an RSU may be settled only in cash, no shares shall be counted against the shares available for the grant of Awards under the Plan;

(C) if any Award (i) expires or is terminated, surrendered or cancelled without having been fully exercised or is forfeited in whole or in part (including as the result of shares of Common Stock subject to such Award being repurchased by the Company at the original issuance price pursuant to a contractual repurchase right) or (ii) results in any Common Stock not being issued (including as a result of an SAR that was settleable either in cash or in stock actually being settled in cash), the unused Common Stock covered by such Award shall again be available for the grant of Awards; *provided, however,* that (1) in the case of Incentive Stock Options, the foregoing shall be subject to any limitations under the Code, (2) in the case of the exercise of an SAR, the number of shares counted against the shares available under the Plan and against the sublimits contained in Section 4(b) shall be the full number of shares subject to the SAR multiplied by the percentage of the SAR actually exercised, regardless of the number of shares actually used to settle such SAR upon exercise and (3) the shares covered by a Tandem SAR shall not again become available for grant upon the expiration or termination of such Tandem SAR;

(D) shares of Common Stock delivered (either by actual delivery, attestation, or net exercise) to the Company by a Participant to (i) purchase shares of Common Stock upon the exercise of an Award or (ii) satisfy tax withholding obligations with respect to Awards (including shares retained from the Award creating the tax obligation) shall not be added back to the number of shares available for the future grant of Awards; and

(E) shares of Common Stock repurchased by the Company on the open market using the proceeds from the exercise of an Award shall not increase the number of shares available for future grant of Awards.

---

- (b) Sublimits. Subject to adjustment under Section 10, the following sublimits on the number of shares subject to Awards shall apply:
- (1) Per-Participant Limits. The maximum number of shares of Common Stock with respect to which Awards may be granted to any Participant under the Plan shall be 250,000 per calendar year of the Company. For purposes of the foregoing limit, the combination of an Option in tandem with a Stock Appreciation Right shall be treated as a single Award.
  - (2) Limit on Awards to Non-Employee Directors. The maximum aggregate amount of cash and value (calculated based on grant date fair value for financial reporting purposes) of Awards granted in any fiscal year to any individual non-employee director shall not exceed \$500,000; provided, however, fees paid by the Company on behalf of any non-employee director in connection with regulatory compliance and any amounts paid to a non-employee director as reimbursement of an expense shall not count against the foregoing limitation. The Compensation Committee may make additional exceptions to this limit for individual non-employee directors in extraordinary circumstances or in the case of regulatory filing fees, as the Committee may determine in its discretion, provided that the non-employee director receiving such additional compensation may not participate in the decision to award such compensation.
  - (c) Substitute Awards. In connection with a merger or consolidation of an entity with the Company or the acquisition by the Company of property or stock of an entity, the Board may grant Awards in substitution for any options or other stock or stock-based awards granted by such entity or an affiliate thereof. Substitute Awards may be granted on such terms as the Board deems appropriate in the circumstances, notwithstanding any limitations on Awards contained in the Plan. Substitute Awards shall not count against the overall share limit set forth in Section 4(a)(1) or any sublimits contained in the Plan, except as may be required by reason of Section 422 and related provisions of the Code.

5. Stock Options.

- (a) General. The Board may grant options to purchase Common Stock (each, an “*Option*”) and determine the number of shares of Common Stock to be covered by each Option, the exercise price of each Option and the conditions and limitations applicable to the exercise of each Option, including conditions relating to applicable federal or state securities laws, as the Board considers necessary or advisable.
  - (b) Incentive Stock Options. An Option that the Board intends to be an “incentive stock option” as defined in Section 422 of the Code (an “*Incentive Stock Option*”) shall only be granted to employees of PC Connection, Inc., any of PC Connection, Inc.’s present or future parent or subsidiary corporations as defined in Sections 424(e) or (f) of the Code, and any other entities the employees of which are eligible to receive Incentive Stock Options under the Code, and shall be subject to and shall be construed consistently with the requirements of Section 422 of the Code. An Option that is not intended to be an Incentive Stock Option shall be designated a “*Nonstatutory Stock Option*.” The Company shall have no liability to a Participant, or any other person, if an Option (or any part thereof) that is intended to be an Incentive Stock Option is not an Incentive Stock Option or if the Company converts an Incentive Stock Option to a Nonstatutory Stock Option.
  - (c) Exercise Price. The Board shall establish the exercise price of each Option or the formula by which such exercise price will be determined. The exercise price shall be specified in the applicable Option agreement. The exercise price shall be not less than 100% of the Grant Date Fair Market Value (as defined below) of the Common Stock on the date the Option is approved; provided that if the Board approves the grant of an Option with an exercise price to be determined on a future date, the exercise price shall be not less than 100% of the Grant Date Fair Market Value on such future date. “Grant Date Fair Market Value” of a share of Common Stock for purposes of the Plan will be determined as follows:
    - (1) if the Common Stock trades on a national securities exchange, the closing sale price (for the primary trading session) on the applicable date; or
    - (2) if the Common Stock does not trade on any such exchange, the average of the closing bid and asked prices on the applicable date as reported by an over-the-counter marketplace designated by the Board; or
-

- (3) if the Common Stock is not publicly traded, the Board will determine the Grant Date Fair Market Value for purposes of the Plan using any measure of value it determines to be appropriate (including, as it considers appropriate, relying on appraisals) in a manner consistent with the valuation principles under Code Section 409A, except as the Board may expressly determine otherwise.

For any date that is not a trading day, the Grant Date Fair Market Value of a share of Common Stock for such date will be determined by using the closing sale price or average of the bid and asked prices, as appropriate, for the immediately following trading day and with the timing in the formulas above adjusted accordingly. The Board can substitute a particular time of day or other measure of “closing sale price” or “bid and asked prices” if appropriate because of exchange or market procedures or can, in its sole discretion, use weighted averages either on a daily basis or such longer period as complies with Code Section 409A.

The Board has sole discretion to determine the Grant Date Fair Market Value for purposes of the Plan, and all Awards are conditioned on the Participant’s agreement that the Administrator’s determination is conclusive and binding even though others might make a different determination.

- (d) Duration of Options. Each Option shall be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable Option agreement; provided, however, that no Option will be granted with a term in excess of 10 years.
  - (e) Exercise of Options. Options may be exercised by delivery to the Company of a notice of exercise in a form (which may be electronic and which may be provided to a third-party equity plan administrator) approved by the Company, together with payment in full (in the manner specified in Section 5(f)) of the exercise price for the number of shares for which the Option is exercised. Shares of Common Stock subject to the Option will be delivered by the Company as soon as practicable following exercise.
  - (f) Payment Upon Exercise. Common Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows:
    - (1) in cash or by check, payable to the order of the Company;
    - (2) except as may otherwise be provided in the applicable Option agreement or approved by the Board, by (i) delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to the Company sufficient funds to pay the exercise price and any required tax withholding or (ii) delivery by the Participant to the Company of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price and any required tax withholding;
    - (3) to the extent provided for in the applicable Option agreement or approved by the Board, by delivery (either by actual delivery or attestation) of shares of Common Stock owned by the Participant valued at their fair market value (valued in the manner determined by (or in a manner approved by) the Board), provided (i) such method of payment is then permitted under applicable law, (ii) such Common Stock, if acquired directly from the Company, was owned by the Participant for such minimum period of time, if any, as may be established by the Board and (iii) such Common Stock is not subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements;
    - (4) to the extent provided for in the applicable Nonstatutory Stock Option agreement or approved by the Board, by delivery of a notice of “net exercise” to the Company, as a result of which the Participant would receive (i) the number of shares underlying the portion of the Option being exercised, less (ii) such number of shares as is equal to (A) the aggregate exercise price for the portion of the Option being exercised divided by (B) the fair market value of the Common Stock (valued in the manner determined by (or in a manner approved by) the Board) on the date of exercise;
    - (5) to the extent permitted by applicable law and provided for in the applicable Option agreement or approved by the Board, by payment of such other lawful consideration as the Board may determine; or
    - (6) by any combination of the above permitted forms of payment, to the extent approved by the Board.
-

(g) Limitation on Repricing. Unless such action is approved by the Company's stockholders, the Company may not (except as provided for under Section 10): (1) amend any outstanding Option granted under the Plan to provide an exercise price per share that is lower than the then-current exercise price per share of such outstanding Option, (2) cancel any outstanding option (whether or not granted under the Plan) and grant in substitution therefor new Awards under the Plan (other than Awards granted pursuant to Section 4(c)) covering the same or a different number of shares of Common Stock and having an exercise price per share lower than the then-current exercise price per share of the cancelled option, (3) cancel in exchange for a cash payment any outstanding Option with an exercise price per share above the then-current fair market value of the Common Stock (valued in the manner determined by (or in a manner approved by) the Board), or (4) take any other action under the Plan that constitutes a "repricing" within the meaning of the rules of the NASDAQ Stock Market.

(h) No Reload Options. No Option granted under the Plan shall contain any provision entitling the Participant to the automatic grant of additional Options in connection with any exercise of the original Option.

(i) No Dividend Equivalents. No Option shall provide for the payment or accrual of dividend equivalents.

#### 6. Stock Appreciation Rights

(a) General. The Board may grant Awards consisting of stock appreciation rights ("SARs") entitling the holder, upon exercise, to receive an amount of Common Stock or cash or a combination thereof (such form to be determined by the Board) determined by reference to appreciation, from and after the date of grant, in the fair market value of a share of Common Stock (valued in the manner determined by (or in a manner approved by) the Board) over the measurement price established pursuant to Section 6(b). The date as of which such appreciation is determined shall be the exercise date.

(b) Measurement Price. The Board shall establish the measurement price of each SAR and specify it in the applicable SAR agreement. The measurement price shall not be less than 100% of the Grant Date Fair Market Value of the Common Stock on the date the SAR is granted; provided that if the Board approves the grant of an SAR effective as of a future date, the measurement price shall be not less than 100% of the Grant Date Fair Market Value on such future date.

(c) Duration of SARs. Each SAR shall be exercisable at such times and subject to such terms and conditions as the Board may specify in the applicable SAR agreement; provided, however, that no SAR will be granted with a term in excess of 10 years.

(d) Exercise of SARs. SARs may be exercised by delivery to the Company of a notice of exercise in a form (which may be electronic) approved by the Company, together with any other documents required by the Board.

(e) Limitation on Repricing. Unless such action is approved by the Company's stockholders, the Company may not (except as provided for under Section 10): (1) amend any outstanding SAR granted under the Plan to provide a measurement price per share that is lower than the then-current measurement price per share of such outstanding SAR, (2) cancel any outstanding SAR (whether or not granted under the Plan) and grant in substitution therefor new Awards under the Plan (other than Awards granted pursuant to Section 4(c)) covering the same or a different number of shares of Common Stock and having a measurement price per share lower than the then-current measurement price per share of the cancelled SAR, (3) cancel in exchange for a cash payment any outstanding SAR with a measurement price per share above the then-current fair market value of the Common Stock (valued in the manner determined by (or in a manner approved by) the Board), or (4) take any other action under the Plan that constitutes a "repricing" within the meaning of the rules of the NASDAQ Stock Market.

(f) No Reload SARs. No SAR granted under the Plan shall contain any provision entitling the Participant to the automatic grant of additional SARs in connection with any exercise of the original SAR.

(g) No Dividend Equivalents. No SAR shall provide for the payment or accrual of dividend equivalents.

---

## 7. Restricted Stock; RSUs

- (a) General. The Board may grant Awards entitling recipients to acquire shares of Common Stock (“*Restricted Stock*”), subject to the right of the Company to repurchase all or part of such shares at their issue price or other stated or formula price (or to require forfeiture of such shares if issued at no cost) from the recipient in the event that conditions specified by the Board in the applicable Award are not satisfied prior to the end of the applicable restriction period or periods established by the Board for such Award. The Board may also grant Awards entitling the recipient to receive shares of Common Stock or cash to be delivered as soon as practicable after the time such Award vests (“*RSUs*”).
  - (b) Terms and Conditions for Restricted Stock and RSUs. The Board shall determine the terms and conditions of Restricted Stock and RSUs, including the conditions for vesting and repurchase (or forfeiture) and the issue price, if any.
  - (c) Additional Provisions Relating to Restricted Stock.
    - (1) Dividends. Any dividends (whether paid in cash, stock or property) declared and paid by the Company with respect to shares of Restricted Stock (“*Unvested Dividends*”) shall be paid to the Participant only if and when such shares become free from the restrictions on transferability and forfeitability that apply to such shares or at such other time as the Board shall determine and set forth in the applicable award agreement. No interest will be paid on Unvested Dividends.
    - (2) Stock Certificates. The Company may require that any stock certificates issued in respect of shares of Restricted Stock, as well as dividends or distributions paid on such Restricted Stock, shall be deposited in escrow by the Participant, together with a stock power endorsed in blank, with the Company (or its designee). At the expiration of the applicable restriction periods, the Company (or such designee) shall deliver the certificates no longer subject to such restrictions to the Participant or if the Participant has died, to his or her Designated Beneficiary. “*Designated Beneficiary*” means (i) the beneficiary designated, in a manner determined by the Board, by a Participant to receive amounts due or exercise rights of the Participant in the event of the Participant’s death or (ii) in the absence of an effective designation by a Participant, the Participant’s estate.
  - (d) Additional Provisions Relating to RSUs.
    - (1) Settlement. As soon as practicable after the vesting of and/or lapsing of any other restrictions (i.e., settlement) with respect to each RSU, the Participant shall be entitled to receive from the Company the number of shares of Common Stock specified in the Award agreement or (if so provided in the applicable Award agreement or otherwise determined by the Board) an amount of cash equal to the fair market value (valued in the manner determined by (or in a manner approved by) the Board) of such number of shares or a combination thereof. The Board may provide that settlement of RSUs shall be deferred, on a mandatory basis or at the election of the Participant, in a manner that complies with Section 409A of the Code or any successor provision thereto, and the regulations thereunder (“*Section 409A*”).
    - (2) Voting Rights. A Participant shall have no voting rights with respect to any RSUs.
    - (3) Dividend Equivalents. The Award agreement for RSUs may provide Participants with the right to receive an amount equal to any dividends or other distributions declared and paid on an equal number of outstanding shares of Common Stock (“*Dividend Equivalents*”). Dividend Equivalents will be credited to an account for the Participant, may be settled in cash and/or shares of Common Stock as set forth in the applicable award agreement and shall be subject to the same restrictions on transfer and forfeitability as the RSUs with respect to which paid. No interest will be paid on Dividend Equivalents.
- ## 8. Other Stock-Based and Cash-Based Awards
- (a) General. The Board may grant other Awards of shares of Common Stock, and other Awards that are valued in whole or in part by reference to, or are otherwise based on, shares of Common Stock or other property (“*Other Stock-Based Awards*”). Such Other Stock-Based Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan or as payment in lieu of compensation to which a Participant is
-



otherwise entitled. Other Stock-Based Awards may be paid in shares of Common Stock or cash, as the Board shall determine. The Company may also grant Awards denominated in cash rather than shares of Common Stock (“Cash-Based Awards”).

- (b) Terms and Conditions. Subject to the provisions of the Plan, the Board shall determine the terms and conditions of each Other Stock-Based or Cash-Based Award, including any purchase price applicable thereto.
- (c) Dividend Equivalents. The Award agreement for an Other Stock-Based Award may provide Participants with the right to receive Dividend Equivalents. Dividend Equivalents will be credited to an account for the Participant, may be settled in cash and/or shares of Common Stock as set forth in the applicable award agreement and shall be subject to the same restrictions on transfer and forfeitability as the Other Stock-Based Award with respect to which paid. No interest will be paid on Dividend Equivalents.

#### 9. Performance Awards.

- (a) Grants. Awards under the Plan may be made subject to the achievement of performance goals pursuant to this Section 9 (“Performance Awards”).
- (b) Performance Measures. The Board may specify that the degree of granting, vesting and/or payout of any Performance Award shall be subject to the achievement of one or more performance measures established by the Board, which may be based on the relative or absolute attainment of specified levels of one or any combination of the following, which may be determined pursuant to generally accepted accounting principles (“GAAP”) or on a non-GAAP basis, as determined by the Board: (i) net income, (ii) earnings before or after discontinued operations, interest, taxes, depreciation and/or amortization, (iii) operating profit before or after discontinued operations and/or taxes, (iv) sales, (v) sales growth, (vi) earnings growth, (vii) cash flow or cash position, (viii) gross margins, (ix) stock price, (x) market share, (xi) return on sales, assets, equity or investment, (xii) improvement of financial ratings, (xiii) achievement of balance sheet or income statement objectives, (xiv) total shareholder return, or (xv) any other measure selected by the Board. Such goals may reflect absolute entity or business unit performance or a relative comparison to the performance of a peer group of entities or other external measure of the selected performance criteria and may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. The Board may specify that such performance measures shall be adjusted to exclude any one or more of (A) extraordinary items, (B) gains or losses on the dispositions of discontinued operations, (C) the cumulative effects of changes in accounting principles, (D) the writedown of any asset, (E) fluctuation in foreign currency exchange rates, (F) charges for restructuring and rationalization programs, (G) non-cash, mark-to-market adjustments on derivative instruments, (H) amortization of purchased intangibles, (I) the net impact of tax rate changes, (J) non-cash asset impairment charges, (K) gains on extinguishment of the tax receivable agreement and (L) such other factors as the Board may determine. Such performance measures: (x) may vary by Participant and may be different for different Awards; (y) may be particular to a Participant or the department, branch, line of business, subsidiary or other unit in which the Participant works and (z) may cover such period as may be specified by the Board. The Board shall have the authority to make equitable adjustments to the performance goals in recognition of unusual or non-recurring events affecting the Company or the financial statements of the Company, in response to changes in applicable laws or regulations or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles. Dividends or Dividend Equivalents granted with respect to any Performance Award will be credited to an account for the Participant, may be settled in cash and/or shares of Common Stock as set forth in the applicable award agreement and shall be subject to the same restrictions on transfer and forfeitability as the Performance Award with respect to which granted.
- (c) Adjustments. The Board may adjust the cash or number of shares payable pursuant to such Performance Award, and the Board may, at any time, waive the achievement of the applicable performance measures, including in the case of the death or disability of the Participant or a change in control of the Company.

#### 10. Adjustments for Changes in Common Stock and Certain Other Events

- (a) Changes in Capitalization. In the event of any stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in capitalization or event, or any dividend or distribution to holders of Common Stock other than an ordinary cash dividend, (i) the number and class
-

of securities available under the Plan, (ii) the share counting rules and sublimits set forth in Sections 4(a) and 4(b), (iii) the number and class of securities and exercise price per share of each outstanding Option, (iv) the share and per-share provisions and the measurement price of each outstanding SAR, (v) the number of shares subject to and the repurchase price per share subject to each outstanding award of Restricted Stock and (vi) the share and per-share-related provisions and the purchase price, if any, of each outstanding RSU and each Other Stock-Based Award, shall be equitably adjusted by the Company (or substituted Awards may be made, if applicable) in the manner determined by the Board. Without limiting the generality of the foregoing, in the event the Company effects a split of the Common Stock by means of a stock dividend and the exercise price of and the number of shares subject to an outstanding Option are adjusted as of the date of the distribution of the dividend (rather than as of the record date for such dividend), then an optionee who exercises an Option between the record date and the distribution date for such stock dividend shall be entitled to receive, on the distribution date, the stock dividend with respect to the shares of Common Stock acquired upon such Option exercise, notwithstanding the fact that such shares were not outstanding as of the close of business on the record date for such stock dividend.

(b) Reorganization Events.

(1) Definition. A “*Reorganization Event*” shall mean: (a) any merger or consolidation of the Company with or into another entity as a result of which all of the Common Stock of the Company is converted into or exchanged for the right to receive cash, securities or other property or is cancelled, (b) any transfer or disposition of all of the Common Stock of the Company for cash, securities or other property pursuant to a share exchange or other transaction or (c) any liquidation or dissolution of the Company.

(2) Consequences of a Reorganization Event on Awards Other than Restricted Stock.

(A) In connection with a Reorganization Event, the Board may take any one or more of the following actions as to all or any (or any portion of) outstanding Awards other than Restricted Stock on such terms as the Board determines (except to the extent specifically provided otherwise in an applicable Award agreement or another agreement between the Company and the Participant): (i) provide that such Awards shall be assumed, or substantially equivalent Awards shall be substituted, by the acquiring or succeeding corporation (or an affiliate thereof), (ii) upon written notice to a Participant, provide that all of the Participant’s unvested Awards will be forfeited immediately prior to the consummation of such Reorganization Event and/or unexercised Awards will terminate immediately prior to the consummation of such Reorganization Event unless exercised by the Participant (to the extent then exercisable) within a specified period following the date of such notice, (iii) provide that outstanding Awards shall become exercisable, realizable or deliverable, or restrictions applicable to an Award shall lapse, in whole or in part prior to or upon such Reorganization Event, (iv) in the event of a Reorganization Event under the terms of which holders of Common Stock will receive upon consummation thereof a cash payment for each share surrendered in the Reorganization Event (the “*Acquisition Price*”), make or provide for a cash payment to Participants with respect to each Award held by a Participant equal to (A) the number of shares of Common Stock subject to the vested portion of the Award (after giving effect to any acceleration of vesting that occurs upon or immediately prior to such Reorganization Event) multiplied by (B) the excess, if any, of (I) the Acquisition Price over (II) the exercise, measurement or purchase price of such Award and any applicable tax withholdings, in exchange for the termination of such Award, (v) provide that, in connection with a liquidation or dissolution of the Company, Awards shall convert into the right to receive liquidation proceeds (if applicable, net of the exercise, measurement or purchase price thereof and any applicable tax withholdings) and (vi) any combination of the foregoing. In taking any of the actions permitted under this Section 10(b)(2), the Board shall not be obligated by the Plan to treat all Awards, all Awards held by a Participant, or all Awards of the same type, identically.

(B) Notwithstanding the terms of Section 10(b)(2)(A), in the case of outstanding Restricted Stock Units that are subject to Section 409A of the Code: (i) if the applicable Restricted Stock Unit agreement provides that the Restricted Stock Units shall be settled upon a “change in control event” within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(i), and the Reorganization Event constitutes such a “change in control event”, then no assumption or substitution shall be permitted pursuant to Section 10(b)(2)(A)(i) and the Restricted Stock Units shall instead be settled in accordance with the terms of the applicable Restricted Stock Unit agreement; and (ii) the Board may only undertake the actions set forth in clauses (iii), (iv) or (v) of Section 10(b)(2)(A) if the Reorganization Event constitutes a “change in control event” as defined under Treasury Regulation Section 1.409A-3(i)(5)(i) and such action is permitted or required by Section 409A of the Code; if the Reorganization Event is not a “change in control event” as so defined or such action is not permitted or required by Section 409A of the Code, and the acquiring or

---

succeeding corporation does not assume or substitute the Restricted Stock Units pursuant to clause (i) of Section 10(b)(2)(A), then the unvested Restricted Stock Units shall terminate immediately prior to the consummation of the Reorganization Event without any payment in exchange therefor.

- (C) For purposes of Section 10(b)(2)(A)(i), an Award (other than Restricted Stock) shall be considered assumed if, following consummation of the Reorganization Event, such Award confers the right to purchase or receive pursuant to the terms of such Award, for each share of Common Stock subject to the Award immediately prior to the consummation of the Reorganization Event, the consideration (whether cash, securities or other property) received as a result of the Reorganization Event by holders of Common Stock for each share of Common Stock held immediately prior to the consummation of the Reorganization Event (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); *provided, however*, that if the consideration received as a result of the Reorganization Event is not solely Common Stock of the acquiring or succeeding corporation (or an affiliate thereof), the Company may, with the consent of the acquiring or succeeding corporation, provide for the consideration to be received upon the exercise or settlement of the Award to consist solely of such number of shares of Common Stock of the acquiring or succeeding corporation (or an affiliate thereof) that the Board determines to be equivalent in value (as of the date of such determination or another date specified by the Board) to the per share consideration received by holders of outstanding shares of Common Stock as a result of the Reorganization Event.
- (3) Consequences of a Reorganization Event on Restricted Stock. Upon the occurrence of a Reorganization Event other than a liquidation or dissolution of the Company, the repurchase and other rights of the Company with respect to outstanding Restricted Stock shall inure to the benefit of the Company's successor and shall, unless the Board determines otherwise, apply to the cash, securities or other property which the Common Stock was converted into or exchanged for pursuant to such Reorganization Event in the same manner and to the same extent as they applied to such Restricted Stock; *provided, however*, that the Board may provide for termination or deemed satisfaction of such repurchase or other rights under the instrument evidencing any Restricted Stock or any other agreement between a Participant and the Company, either initially or by amendment. Upon the occurrence of a Reorganization Event involving the liquidation or dissolution of the Company, except to the extent specifically provided to the contrary in the instrument evidencing any Restricted Stock or any other agreement between a Participant and the Company, all restrictions and conditions on all Restricted Stock then outstanding shall automatically be deemed terminated or satisfied.

#### 11. General Provisions Applicable to Awards

- (a) Transferability of Awards. Awards shall not be sold, assigned, transferred, pledged or otherwise encumbered by a Participant, either voluntarily or by operation of law, except by will or the laws of descent and distribution or, other than in the case of an Incentive Stock Option, pursuant to a qualified domestic relations order, and, during the life of the Participant, shall be exercisable only by the Participant; *provided, however*, that, except with respect to Awards subject to Section 409A, the Board may permit or provide in an Award for the gratuitous transfer of the Award by the Participant to or for the benefit of any immediate family member, family trust or other entity established for the benefit of the Participant and/or an immediate family member thereof if the Company would be eligible to use a Form S-8 under the Securities Act for the registration of the sale of the Common Stock subject to such Award to such proposed transferee; *provided further*, that the Company shall not be required to recognize any such permitted transfer until such time as such permitted transferee shall, as a condition to such transfer, deliver to the Company a written instrument in form and substance satisfactory to the Company confirming that such transferee shall be bound by all of the terms and conditions of the Award. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees. For the avoidance of doubt, nothing contained in this Section 11(a) shall be deemed to restrict a transfer to the Company.
- (b) Documentation. Each Award shall be evidenced in such form (written, electronic or otherwise) as the Board shall determine. Each Award may contain terms and conditions in addition to those set forth in the Plan. In the event of any conflict between the terms of any Award agreement and this Plan, this Plan shall govern and control.
- (c) Termination of Status. The Board shall determine the effect on an Award of the disability, death, termination or other cessation of employment, authorized leave of absence or other change in the employment or other status of a Participant and the extent to which, and the period during which, the Participant, or the Participant's legal
-

representative, conservator, guardian or Designated Beneficiary, may exercise rights, or receive any benefits, under an Award.

- (d) Withholding. The Participant must satisfy all applicable federal, state, and local or other income and employment tax withholding obligations before the Company will deliver stock certificates or otherwise recognize ownership of Common Stock under an Award. The Company may elect to satisfy the withholding obligations through additional withholding on salary or wages. If the Company elects not to or cannot withhold from other compensation, the Participant must pay the Company the full amount, if any, required for withholding or have a broker tender to the Company cash equal to the withholding obligations. Payment of withholding obligations is due before the Company will issue any shares on exercise, vesting or release from forfeiture of an Award or at the same time as payment of the exercise or purchase price, unless the Company determines otherwise. If provided for in an Award or approved by the Board, a Participant may satisfy the tax obligations in whole or in part by delivery (either by actual delivery or attestation) of shares of Common Stock, including shares retained from the Award creating the tax obligation, valued at their fair market value (valued in the manner determined by (or in a manner approved by) the Company); *provided, however*, except as otherwise provided by the Board, that the total tax withholding where stock is being used to satisfy such tax obligations cannot exceed the Company's minimum statutory withholding obligations (based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income), except that, to the extent that the Company is able to retain shares of Common Stock having a fair market value (determined by, or in a manner approved by, the Company) that exceeds the statutory minimum applicable withholding tax without financial accounting implications or the Company is withholding in a jurisdiction that does not have a statutory minimum withholding tax, the Company may retain such number of shares of Common Stock (up to the number of shares having a fair market value equal to the maximum individual statutory rate of tax (determined by, or in a manner approved by, the Company)) as the Company shall determine in its sole discretion to satisfy the tax liability associated with any Award. Shares used to satisfy tax withholding requirements cannot be subject to any repurchase, forfeiture, unfulfilled vesting or other similar requirements.
- (e) Amendment of Award. Except as otherwise provided in Sections 5(g) and 6(e) related to repricings, the Board may amend, modify or terminate any outstanding Award, including but not limited to, substituting therefor another Award of the same or a different type, changing the date of exercise or realization, and converting an Incentive Stock Option to a Nonstatutory Stock Option. The Participant's consent to such action shall be required unless (i) the Board determines that the action, taking into account any related action, does not materially and adversely affect the Participant's rights under the Plan or (ii) the change is permitted under Section 10.
- (f) Conditions on Delivery of Stock. The Company will not be obligated to deliver any shares of Common Stock pursuant to the Plan or to remove restrictions from shares previously issued or delivered under the Plan until (i) all conditions of the Award have been met or removed to the satisfaction of the Company, (ii) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and regulations and any applicable stock exchange or stock market rules and regulations, and (iii) the Participant has executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of any applicable laws, rules or regulations.
- (g) Limitations on Vesting. Subject to Section 11(h), and notwithstanding any other provision in the Plan to the contrary, Awards granted under the Plan (other than Cash-Based Awards) shall vest no earlier than the first anniversary of the date on which the Award is granted; provided that the following Awards shall not be subject to the foregoing minimum vesting requirement: (i) shares of Common Stock delivered in lieu of fully-vested cash awards, and (ii) any additional Awards the Board may grant up to a maximum of five percent (5%) of the maximum number of shares of Common Stock available for the grant of Awards under Section 4(a) of the Plan (and subject to adjustment under Section 10); and, provided, further, that the foregoing restriction does not apply to the Board's discretion to provide for the accelerated exercisability of vesting of any Award in the terms of the Plan, the Award agreement or otherwise.
- (h) Acceleration. The Board may at any time provide that any Award shall become immediately exercisable in whole or in part, free from some or all restrictions or conditions or otherwise realizable in whole or in part, as the case may be.
-

12. Miscellaneous

- (a) No Right To Employment or Other Status. No person shall have any claim or right to be granted an Award by virtue of the adoption of the Plan, and the grant of an Award shall not be construed as giving a Participant the right to continued employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise terminate its relationship with a Participant free from any liability or claim under the Plan, except as expressly provided in the applicable Award.
- (b) No Rights As Stockholder; Clawback. Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be issued with respect to an Award until becoming the record holder of such shares. In accepting an Award under the Plan, the Participant agrees to be bound by any clawback policy that the Company has in effect or may adopt in the future.
- (c) Effective Date and Term of Plan. The Plan shall become effective on the Effective Date. No Awards shall be granted under the Plan after the expiration of 10 years from the Effective Date, but Awards previously granted may extend beyond that date.
- (d) Amendment of Plan. The Board may amend, suspend or terminate the Plan or any portion thereof at any time provided that (i) neither Section 5(g) nor 6(e) requiring stockholder approval of any Option or SAR repricing may be amended without stockholder approval; (ii) no amendment that would require stockholder approval under the rules of the national securities exchange on which the Company then maintains its primary listing may be made effective unless and until the Company's stockholders approve such amendment; and (iii) if the national securities exchange on which the Company then maintains its primary listing does not have rules regarding when stockholder approval of amendments to equity compensation plans is required (or if the Company's Common Stock is not then listed on any national securities exchange), then no amendment to the Plan (A) materially increasing the number of shares authorized under the Plan (other than pursuant to Section 4(c) or 10), (B) expanding the types of Awards that may be granted under the Plan, or (C) materially expanding the class of participants eligible to participate in the Plan shall be effective unless and until the Company's stockholders approve such amendment. In addition, if at any time the approval of the Company's stockholders is required as to any other modification or amendment under Section 422 of the Code or any successor provision with respect to Incentive Stock Options, the Board may not effect such modification or amendment without such approval. Unless otherwise specified in the amendment, any amendment to the Plan adopted in accordance with this Section 12(d) shall apply to, and be binding on the holders of, all Awards outstanding under the Plan at the time the amendment is adopted, provided the Board determines that such amendment, taking into account any related action, does not materially and adversely affect the rights of Participants under the Plan. No Award shall be made that is conditioned upon stockholder approval of any amendment to the Plan unless the Award provides that (i) it will terminate or be forfeited if stockholder approval of such amendment is not obtained within no more than 12 months from the date of grant and (2) it may not be exercised or settled (or otherwise result in the issuance of Common Stock) prior to such stockholder approval.
- (e) Authorization of Sub-Plans (including for Grants to non-U.S. Employees). The Board may from time to time establish one or more sub-plans under the Plan for purposes of satisfying applicable securities, tax or other laws of various jurisdictions. The Board shall establish such sub-plans by adopting supplements to the Plan containing (i) such limitations on the Board's discretion under the Plan as the Board deems necessary or desirable or (ii) such additional terms and conditions not otherwise inconsistent with the Plan as the Board shall deem necessary or desirable. All supplements adopted by the Board shall be deemed to be part of the Plan, but each supplement shall apply only to Participants within the affected jurisdiction and the Company shall not be required to provide copies of any supplement to Participants in any jurisdiction which is not the subject of such supplement.
- (f) Compliance with Section 409A of the Code. If and to the extent (i) any portion of any payment, compensation or other benefit provided to a Participant pursuant to the Plan in connection with his or her employment termination constitutes "nonqualified deferred compensation" within the meaning of Section 409A and (ii) the Participant is a specified employee as defined in Section 409A(a)(2)(B)(i) of the Code, in each case as determined by the Company in accordance with its procedures, by which determinations the Participant (through accepting the Award) agrees that he or she is bound, such portion of the payment, compensation or other benefit shall not be paid before the day that is six months plus one day after the date of "separation from service" (as determined under Section 409A) (the "*New Payment Date*"), except as Section 409A may then permit. The aggregate of any payments that otherwise
-

would have been paid to the Participant during the period between the date of separation from service and the New Payment Date shall be paid to the Participant in a lump sum on such New Payment Date, and any remaining payments will be paid on their original schedule.

The Company makes no representations or warranty and shall have no liability to the Participant or any other person if any provisions of or payments, compensation or other benefits under the Plan are determined to constitute nonqualified deferred compensation subject to Section 409A but do not to satisfy the conditions of that section.

- (g) Limitations on Liability. Notwithstanding any other provisions of the Plan, no individual acting as a director, officer, employee or agent of the Company will be liable to any Participant, former Participant, spouse, beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan, nor will such individual be personally liable with respect to the Plan because of any contract or other instrument he or she executes in his or her capacity as a director, officer, employee or agent of the Company. The Company will indemnify and hold harmless each director, officer, employee or agent of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been or will be delegated, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim with the Board's approval) arising out of any act or omission to act concerning the Plan unless arising out of such person's own fraud or bad faith.
- (h) Governing Law. The provisions of the Plan and all Awards made hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware, excluding choice-of-law principles of the law of such state that would require the application of the laws of a jurisdiction other than the State of Delaware.
-

**FOURTH AMENDMENT TO  
THIRD AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT**

This FOURTH AMENDMENT TO THIRD AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT (this "Amendment") is entered into as of June 13, 2023 by and among PC CONNECTION, INC., a Delaware corporation (the "Borrower"), the Guarantors listed on the signature pages hereof, the lenders from time to time party to the Credit Agreement (as defined below) (each, a "Lender", and collectively, the "Lenders"), and CITIZENS BANK, N.A., a national banking association ("Citizens"), as agent for the Lenders (in such capacity, together with its successor and assigns in such capacity, the "Agent").

W I T N E S S E T H:

WHEREAS, the Borrower, Guarantors, the Lenders and the Agent entered into that certain Third Amended and Restated Credit and Security Agreement, dated as of February 24, 2012 (as amended by that certain First Amendment to Third Amended and Restated Credit and Security Agreement, dated as of December 24, 2013, by that certain Second Amendment to Third Amended and Restated Credit and Security Agreement, dated as of February 10, 2017, by that certain Third Amendment to Third Amended and Restated Credit and Security Agreement, dated as of December 2, 2021, as further amended hereby, and as may be further amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, the Borrower has requested that the Agent and the Lenders agree to amend the Credit Agreement and the Other Documents in certain respects to the extent set forth in this Amendment; and

WHEREAS, the Borrower, Guarantors, the Agent and the Lenders party hereto are willing to amend the Credit Agreement and the Other Documents upon the terms and subject to the conditions set forth below.

NOW THEREFORE, in consideration of the foregoing and for other good and valid consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Defined Terms. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Credit Agreement.

2. Amendment. In reliance upon the representations and warranties set forth in Section 4 below and upon satisfaction of the conditions to effectiveness set forth in Section 3 below, the parties hereto agree to amend the Credit Agreement as follows:

(a) All references in the Credit Agreement and the Other Documents to "LIBOR Rate" are hereby amended to refer to "BSBY Rate," all references to "LIBOR Rate Loan" are hereby amended to refer to "BSBY Loan" and all references to "Domestic Rate Loan" are hereby amended to refer to "ABR Loan".

---

(b) The following terms appearing in Section 1.2 of the Credit Agreement are hereby deleted:

“Adjusted LIBOR Rate”; “Benchmark Replacement Conforming Changes”; “Early Opt-In Election”; “Federal Funds Effective Rate”; “ISDA Definitions”; “LA Interest Period”; “LA Interest Period Date”; “LIBOR Advantage Rate”; “LIBOR Loan”; “LIBOR Rate”; “Quotation Day”; “SOFR Administrator’s Website”; “USD LIBOR”.

(c) The following defined terms appearing in Section 1.2 of the Credit Agreement are amended in their entirety to read as follows:

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Rate in effect on such day plus 0.50% per annum and (c) the Daily BSBY Rate in effect on such day plus 1.00% per annum, provided that the Alternate Base Rate shall at no time be less than 1.00% per annum. If Agent shall have determined (which determination shall be conclusive absent clearly manifest error) that it is unable to ascertain the Federal Funds Rate or the Daily BSBY Rate for any reason, including the inability or failure of Agent to obtain sufficient quotations in accordance with the terms of the definition of the term Federal Funds Rate, the Alternate Base Rate shall be determined without regard to clause (b) or (c), as applicable, of the preceding sentence until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal Funds Rate or the Daily BSBY Rate, as applicable, shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Rate or the Daily BSBY Rate, as applicable, respectively.

“Available Tenor(s)” means, as of any date of determination and with respect to the then-current Benchmark, as applicable, (x) if such Benchmark is a term rate, any tenor for such Benchmark (or component thereof) that is or may be used for determining the length of an interest period pursuant to this Agreement or the Note or (y) otherwise, any payment period for interest calculated with reference to such Benchmark (or component thereof) that is or may be used for determining any frequency of making payments of interest calculated with reference to such Benchmark pursuant to this Agreement or the Note, in each case, as of such date and not including, for the avoidance of doubt, any tenor for such Benchmark that is then-removed from the definition of “Interest Period” pursuant to Section 3.9(b)(iv).

“Benchmark” means, initially, BSBY; provided that if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to BSBY or the then-current Benchmark, then “Benchmark” means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate pursuant to Section 3.9(b)(i). Any reference to “Benchmark” shall include, as applicable, the published component used in the calculation thereof.



“Benchmark Replacement” means, for any Available Tenor, the first alternative set forth in the order below that can be determined by Agent for the applicable Benchmark Replacement Date:

- (a) the sum of (i) Term SOFR and (ii) the related Benchmark Replacement Adjustment;
- (b) the sum of (i) Daily Simple SOFR and (ii) the related Benchmark Replacement Adjustment;  
or
- (c) the sum of (i) the alternate benchmark rate that has been selected by Agent as the replacement for such Available Tenor of such Benchmark giving due consideration to any evolving or then-prevailing market convention for determining a benchmark rate and an adjustment as a replacement for the then-current Benchmark, including any recommendations made by a Relevant Governmental Body, for Dollar-denominated syndicated or bilateral credit facilities at such time and (ii) the related Benchmark Replacement Adjustment;

provided, that any such Benchmark Replacement shall be administratively feasible as determined by Agent in its sole discretion. If the Benchmark Replacement as determined pursuant to clause (a), (b) or (c) above would be less than the Floor, such Benchmark Replacement will be deemed to be the Floor for the purposes of this Agreement and the Other Documents.

“Benchmark Replacement Adjustment” means, with respect to any replacement of the then-current Benchmark with an Unadjusted Benchmark Replacement, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by the Administrative Agent and the Borrower giving due consideration to (a) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body or (b) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for Dollar-denominated syndicated credit facilities;

“Benchmark Replacement Date” means a date and time determined by Agent, which date shall be no later than the earliest to occur of the following events with respect to the then-current Benchmark:

- (a) in the case of clause (a) of the definition of “Benchmark Transition Event,” the later of (i) the date of the public statement or publication of information referenced therein and (ii) the date on which all Available Tenors of such Benchmark (or the published component used in the calculation thereof) are no longer available or permitted to be used for determining the interest rate of Dollar-denominated loans, or shall cease;

(b) in the case of clause (b) of the definition of “Benchmark Transition Event,” the first date on which such Benchmark (or the published component used in the calculation thereof) has been determined and announced by or on behalf of (i) the administrator of such Benchmark (or such component thereof), (ii) the regulatory supervisor for the administrator of such Benchmark (or such component thereof) or (iii) a Governmental Authority exercising regulatory authority over the Agent or any Lender to be non-representative or not to be compliant with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks; provided, that such non-representativeness or non-compliance, as the case may be, will be determined by reference to the most recent statement or publication referenced in such clause (b) and even if any Available Tenor of such Benchmark (or such component thereof) continues to be provided on such date; or

(c) in the case of clause (c) of the definition of “Benchmark Transition Event,” the first date on which such Benchmark (or the published component used in the calculation thereof) has been determined and announced by or on behalf of the administrator of such Benchmark (or such component thereof) or the regulatory supervisor for the administrator of such Benchmark (or such component thereof) to be non-representative; provided that such non-representativeness will be determined by reference to the most recent statement or publication referenced in such clause (c) and even if any Available Tenor of such Benchmark (or such component thereof) continues to be provided on such date.

For the avoidance of doubt, if such Benchmark is a term rate, the “Benchmark Replacement Date” will be deemed to have occurred in the case of clauses (a), (b) or (c) with respect to any Benchmark upon the occurrence of the applicable event or events set forth therein with respect to all then-current Available Tenors hereunder of such Benchmark (or the published component used in the calculation thereof).

“Benchmark Transition Event” means the occurrence of one or more of the following events with respect to the then-current Benchmark:

(a) a public statement or publication of information by or on behalf of (a) the administrator of such Benchmark (or the published component used in the calculation thereof), (b) a Governmental Authority having jurisdiction over such administrator with respect to its publication of such Benchmark (or such component thereof) or (c) a Governmental Authority having jurisdiction over Agent or Lender, in each case acting in such capacity, identifying a specific date after which all Available Tenors of such Benchmark (or such component thereof) (i) shall or will no longer be made available or permitted to be used for determining the interest rate of Dollar-denominated loans, or (ii) shall or will otherwise cease, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark (or such component thereof);

(b) a public statement or publication of information by or on behalf of the administrator of such Benchmark (or the published component used in the

calculation thereof), or the regulatory supervisor for the administrator of such Benchmark (or such component thereof) announcing that all Available Tenors of such Benchmark (or such component thereof) are not, or as of a specified future date will not be, representative, or a public statement or publication of information by or on behalf of any Governmental Authority exercising regulatory supervisory authority over the Agent or any Lender identifying a specific date after which all Available Tenors of the Benchmark are at or will no longer be compliant with the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks; or

(c) if the then-current Benchmark is BSBY, one or more public statements or publications of information by the administrator of the Benchmark (including a “Technical Note” published on the BSBY Website) announcing or indicating, in effect, that a BSBY Final Step Event has occurred for all Available Tenors of the Benchmark.

For the avoidance of doubt, if such Benchmark is a term rate, a “Benchmark Transition Event” will be deemed to have occurred with respect to any Benchmark if a public statement or publication of information set forth above has occurred with respect to each then-current Available Tenor of such Benchmark (or the published component used in the calculation thereof).

“Benchmark Unavailability Period” means, so long as a Benchmark Transition Event has occurred, the period (if any) (a) beginning at the time that a Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Other Document in accordance with Section 3.9 and (b) ending at the time that a Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Other Document in accordance with Section 3.9.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority or the compliance therewith by Agent; provided that notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines and directives thereunder or issued in connection therewith and (ii) all requests, rules, guidelines and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a “Change in Law”, regardless of the date enacted, adopted or issued.

“Corresponding Tenor” with respect to any Available Tenor means, as applicable, either a tenor (including overnight) or an interest payment period having approximately the same length (disregarding Business Day adjustments) as such

Available Tenor; provided that, (i) if any Available Tenor does not correspond to a tenor applicable to the Unadjusted Benchmark Replacement, the closest corresponding tenor of the Unadjusted Benchmark Replacement shall be applied, and (ii) if applicable, if a tenor of the Unadjusted Benchmark Replacement corresponds equally to two tenors of the then-current Benchmark, the corresponding tenor of the shorter duration shall be applied.

“Daily Simple SOFR” means, for any day, SOFR, with the conventions for this rate (which will include a lookback) being established by Agent in accordance with the conventions for this rate selected or recommended by the Relevant Governmental Body for determining “Daily Simple SOFR” for business loans; provided, that if Agent decides that any such convention is not administratively feasible for Agent, then Agent may establish another convention in its reasonable discretion.

“Excluded Taxes” means any of the following Taxes imposed on or with respect to Agent or any Lender or required to be withheld or deducted from a payment to Agent or any Lender: Taxes imposed on or measured by net income (however denominated), franchise Taxes, and branch profits Taxes, in each case, imposed as a result of Agent or any Lender being organized under the laws of, or having its principal office or, in the case of any Lender, its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof).

“Floor” means a rate of interest equal to 0.00% per annum.

“Interest Period” means, as to any Revolving Advance, the period commencing on the date of such Revolving Advance and ending on the numerically corresponding day in the calendar month that is one month thereafter (in each case, subject to the availability thereof), provided that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period, (iii) no Interest Period shall extend beyond the end of the Term and (iv) no tenor that has been removed from this definition pursuant to Section 3.9(b)(iv) shall be available. For purposes hereof, the date of a Revolving Advance initially shall be the date on which such Revolving Advance is made and thereafter shall be the effective date of the most recent conversion or continuation of such Revolving Advance. Interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

“Other Taxes” means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document.

“Reference Time” with respect to any setting of the then-current Benchmark means (1) if such Benchmark is BSBY, 8:00 a.m. (New York City time) on the day that is two (2) Government Securities Business Days preceding the date of such setting, and (2) if such Benchmark is not BSBY, the time determined by Agent in its reasonable discretion.

“Relevant Governmental Body” means the Federal Reserve Board or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board or the Federal Reserve Bank of New York, or any successor thereto.

“SOFR” means a rate equal to the secured overnight financing rate published by the SOFR Administrator on the website of the SOFR Administrator, currently at <http://www.newyorkfed.org> (or any successor source for the secured overnight financing rate identified as such by SOFR Administrator from time to time).

“SOFR Administrator” means the Federal Reserve Bank of New York (or a successor administrator of the secured overnight financing rate).

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any basic, marginal, special, emergency, supplemental or other reserve requirements) expressed as a decimal that are prescribed by the Federal Reserve Board for determining the reserve requirements to which the Agent or any Lender is subject with respect to BSBY Loans. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Term SOFR” means, for the applicable Corresponding Tenor, the forward-looking term rate based on SOFR administered by CME Group Benchmark Administration Limited (CBA) (or a successor administrator selected by Agent in its reasonable discretion).

(d) The following new terms are hereby added to Section 1.2 of the Credit Agreement:

“Bloomberg” means Bloomberg Index Services Limited (or a successor administrator of BSBY).

“BSBY” means the Dollar wholesale funding rate known as BSBY (the Bloomberg Short-Term Bank Yield Index) and provided by Bloomberg as administrator of the benchmark.

“BSBY Final Step Event” means, for any Available Tenor, either (i) the twentieth (20<sup>th</sup>) consecutive Government Securities Business Day or (ii) the thirtieth (30<sup>th</sup>) Government Securities Business Day within a rolling ninety (90)-day period on which BSBY is calculated in accordance with “Level 6” (or any successor

final step) of the Alternative Calculation Waterfall defined or set forth in BSBY's index methodology and rulebook, as published on the BSBY Website.

“BSBY Loan(s)” means a Loan that bears interest at a rate based on the BSBY Rate.

“BSBY Rate” means, for any Interest Period, the rate per annum equal to the greater of (a) the product obtained by multiplying (i) the BSBY Screen Rate determined on the first day of such Interest Period with a term equivalent to such Interest Period by (ii) the Statutory Reserve Rate, and (b) the Floor.

“BSBY Screen Rate” means for any day BSBY as published as of the Reference Time on the applicable Bloomberg screen page (or such other commercially available source providing such quotations as may be designated by Agent from time to time) provided that if the BSBY Screen Rate for any Available Tenor is not published as of the Reference Time and a Benchmark Replacement Date with respect to BSBY has not occurred, then the BSBY Screen Rate for such Available Tenor as of such Reference Time shall be the BSBY Screen Rate as published in respect of the first preceding Government Securities Business Day for which the BSBY Screen Rate was published, so long as such first preceding Government Securities Business Day is not more than three (3) Government Securities Business Days prior to such Reference Time.

“BSBY Long-Term Spread Adjustment” means the most recently dated “BSBY SOFR 5Y Spread Adjustment” published on the BSBY Website.

“BSBY Website” means the “Bloomberg Short-Term Bank Yield Index” website at <https://www.bloomberg.com/professional/product/indices/bsby/> (or any successor website).

“Conforming Changes” means, with respect to either the use or administration of the Benchmark, or the use, administration, adoption or implementation of any Benchmark Replacement, any technical, administrative or operational changes (including, for example and not by way of limitation or prescription, changes to the definition of “Alternate Base Rate,” the definition of “BSBY” or “BSBY Rate,” the definition of “Business Day,” the definition of “Interest Period” or any similar or analogous definition, the definition of “Statutory Reserve Rate”, timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, the applicability and length of lookback periods, and other technical, administrative or operational matters) that Agent decides may be appropriate in connection with the use or administration of the Benchmark or to reflect the adoption and implementation of any Benchmark Replacement or to permit the use and administration thereof by Agent in a manner substantially consistent with market practice (or, if Agent decides that adoption of any portion of such market practice is not administratively feasible or if Agent determines that no market practice for the administration of any such rate exists, in such other manner of administration as Agent decides is reasonably necessary in connection with the administration of

the Loan Agreement and the Other Documents). “Daily BSBY Rate” means, for any day, a rate per annum equal to the BSBY Rate in effect on such day for a one month Interest Period (subject to the Floor set forth in the definition of “BSBY Rate”).

“Federal Reserve Board” means the Board of Governors of the Federal Reserve System of the United States.

“Governmental Authority” means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any department, commission, board, bureau, agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra national bodies such as the European Union or the European Central Bank) and any group or body charged with setting financial accounting or regulatory capital rules or standards (including the Financial Accounting Standards Board, the Bank for International Settlements or the Basel Committee on Banking Supervision or any successor or similar authority to any of the foregoing).

“Government Securities Business Day” means any day except for (a) a Saturday, (b) a Sunday or (c) a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

(e) The following new Section 1.5 is hereby added to the Credit Agreement:

1.5 Rates Generally; Disclosure Regarding BSBY.

(a) Rates Generally. Agent does not warrant or accept responsibility for, and shall not have any liability with respect to (i) administration, construction, calculation, publication, continuation, discontinuation, movement, or regulation of, or any other matter related to, the Alternate Base Rate, the Benchmark (including, in the case of the BSBY Screen Rate, the Alternative Calculation Waterfall defined or set forth in BSBY’s index methodology and rulebook, as published on the BSBY Website), or any alternative, successor or replacement rate thereto (including any Benchmark Replacement), any component definition thereof or rates referred to in the definition thereof, including whether any Benchmark is similar to, or will produce the same value or economic equivalence of, any other rate or whether financial instruments referencing or underlying the Benchmark will have the same volume or liquidity as those referencing or underlying any other rate, (ii) the impact of any regulatory statements about, or actions taken with respect to any Benchmark (or component thereof), (iii) changes made by any administrator to the methodology used to calculate any Benchmark (or component thereof) or (iv) the effect, implementation or composition of any Conforming Changes. Agent and its affiliates or other related entities may engage in transactions that affect the calculation of the Alternate Base Rate, the Benchmark, any alternative, successor or replacement rate (including any Benchmark Replacement) or any relevant

adjustments thereto, in each case, in a manner adverse to Borrower. Agent does not warrant or accept responsibility for, and shall not have any liability with respect to, such transactions. Agent may select information sources or services in its reasonable discretion to ascertain the Alternate Base Rate, the Benchmark, or any alternative, successor or replacement rate (including any Benchmark Replacement), in each case pursuant to the terms of this Agreement and the Note, and shall have no liability to Borrower, Agent or any other person or entity for damages of any kind, including direct or indirect, special, punitive, incidental or consequential damages, costs, losses or expenses (whether in tort, contract or otherwise and whether at law or in equity), for any error or calculation of any such rate (or component thereof) provided by any such information source or service.

(b) Disclosure Regarding BSBY. The Borrower acknowledges and understands that:

(i) BSBY is administered, constructed, calculated and published by Bloomberg and its administration, construction, calculation, publication, continuation, discontinuation, movement, and regulation is not controlled by Agent and may change without prior notice to Agent,

(ii) BSBY is a relatively new variable term rate designed to represent average yields at which large, global banks access Dollar senior unsecured marginal wholesale funding,

(iii) Bloomberg constructs BSBY by observing activity in various financial instruments and markets in which the Agent may engage or participate, including bank deposits, certificates of deposit, commercial paper markets, and corporate bonds,

(iv) BSBY is considered a so-called “credit sensitive rate” that could increase during times of market stress as it is expected to vary depending on market conditions that impact banks and other market participants,

(v) BSBY is constructed in a manner that could lead to changes in its calculation during times of stress, and could lead to the Loan Agreement and the Note transitioning from BSBY to a Benchmark Replacement Rate,

(vi) banking regulators have emphasized their expectations that banks conduct diligence regarding rates replacing LIBOR, including new rates like BSBY, and

(vii) Bloomberg may change the terms of its license that governs Agent’s or the Borrower’s use of BSBY.

Notwithstanding the above, Borrower agrees to the use of BSBY for all purposes provided under the Loan Documents, accepting any inherent risks associated with such utilization.



(f) Section 2.2 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

2.2 Procedure for Revolving Advances.

(a) With respect to Revolving Advances, Borrower may notify Agent prior to 12:00 noon (Boston time) at least one Business Day prior to the date of the proposed borrowing of Borrower's request to incur a Revolving Advance hereunder. Each request for a Revolving Advance shall, unless Borrower requests a loan of another Type, be deemed to be a request for a BSBY Loan. The amount of any Revolving Advance request shall be a minimum of \$100,000. Should any amount required to be paid as interest hereunder, or as fees or other charges under this Agreement or any other agreement with Agent or Lenders, or with respect to any other Obligation, become due, same shall be deemed a request for a Revolving Advance as of the date such payment is due, in the amount required to pay in full such interest, fee, charge or Obligation under this Agreement or any other agreement with Agent or Lenders, and such request shall be irrevocable.

(b) Each Interest Period of a BSBY Loan shall commence on the date such BSBY Loan is made.

(c) Borrower may, subject to the notice requirements set forth below, on any Business Day convert any Revolving Advance of one Type into a Revolving Advance of another Type in the same aggregate principal amount, provided that no Revolving Advance may be converted into a BSBY Loan if any Default or Event of Default shall have occurred and be continuing. After giving effect to any borrowing or each such conversion, there shall not be outstanding more than four (4) BSBY Loans, in the aggregate.

(d) If any Default or Event of Default shall have occurred and be continuing, at the option of the Required Lenders, each BSBY Loan shall be deemed to convert to an ABR Loan on the last Business Day of the then-current Interest Period in effect with respect thereto.

(e) Borrower may prepay ABR Loans and BSBY Loans in whole at any time or in part from time to time with accrued interest on the principal being prepaid to the date of such repayment. In the event of (a) the payment or prepayment of any principal of any BSBY Loan other than on the last Business Day of the then-current Interest Period applicable thereto whether voluntary, mandatory, automatic, by reason of acceleration (including as a result of an Event of Default), (b) the conversion of any BSBY Loan other than on the last Business Day of the then-current Interest Period applicable thereto (including as a result of an Event of Default), (c) the failure to borrow, convert, continue or prepay any BSBY Loan on the date specified in any notice delivered pursuant hereto, then, in any such event, Borrower shall compensate Agent and Lender for any loss, cost and expense attributable to such event, including any loss, cost or expense arising from the liquidation or redeployment of funds. A certificate of Agent or such Lender setting forth any amount or amounts that Agent or such Lender is entitled to receive

pursuant to this Section shall be delivered to Borrower and shall be conclusive absent manifest error. Borrower shall pay Agent or such Lender the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(g) Section 3.1 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

3.1 Interest. Interest on Advances shall be payable in arrears, on the first day of each month with respect to ABR Loans, and with respect to BSBY Loans, at the end of each Interest Period. Interest charges shall be computed on the actual principal amount of Advances outstanding during the month at a rate per annum equal to (w) with respect to BSBY Loans, the BSBY Rate plus the Applicable Margin thereto, (x) with respect to ABR Loans, the Alternate Base Rate plus the Applicable Margin thereto (as applicable, the "Contract Interest Rate"). Whenever, subsequent to the date of this Agreement, the Alternate Base Rate is increased or decreased, the applicable Contract Interest Rate for ABR Loans shall be similarly changed without notice or demand of any kind by an amount equal to the amount of such change in the Alternate Base Rate during the time such change or changes remain in effect. Immediately upon and after the occurrence of an Event of Default under Section 10.1(a), and during the continuation thereof, the Obligations due under this Agreement shall bear interest at the applicable Contract Interest Rate, plus three (3%) percent per annum (the "Default Rate"). Upon and after the occurrence and during continuance of an Event of Default other than under Section 10.1(a), the Obligations due under this Agreement shall bear interest at the Default Rate if thirty (30) days after Agent gives notice to Borrower that such an Event of Default has occurred, the Event of Default continues to occur.

(h) Section 3.8 of the Credit Agreement is hereby amended in its entirety to read as follows:

"Intentionally Omitted"

(i) Section 3.9 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

3.9 BSBY-Specific Provisions

(a) Inability to Determine Rates. Subject to the provisions herein, if, on or prior to the first day of any Interest Period for any BSBY Loan:

(i) Agent determines (which determination shall be conclusive and binding absent manifest error) that the "BSBY Rate" cannot be determined pursuant to the definition thereof; or

(ii) Agent determines in its reasonable discretion that for any reason in connection with any request for a BSBY Loan or a conversion thereto or a continuation thereof that the BSBY Rate for any requested Interest Period with

respect to a proposed BSBY Loan does not adequately and fairly reflect the cost to Agent of funding such Loan for such Interest Period;

Agent will promptly so notify Borrower.

Upon notice thereof by Agent to Borrower, any obligation of Lenders to make BSBY Loans shall be suspended (to the extent of the affected Interest Periods) until Agent revokes such notice. Upon receipt of such notice, (i) Borrower may revoke any pending request for a borrowing of, conversion to or continuation of BSBY Loans (to the extent of the affected Interest Periods) or, failing that, Borrower will be deemed to have converted any such request into a request for a Loan of or conversion to ABR Loans in the amount specified therein and (ii) any outstanding affected BSBY Loans will be deemed to have been converted into ABR Loans at the end of the applicable Interest Period. Upon any such conversion, Borrower shall also pay accrued interest on the amount so converted, together with any additional amounts required pursuant to this Agreement. If Agent determines (which determination shall be conclusive and binding absent manifest error) that the "BSBY Rate" cannot be determined pursuant to the definition thereof on any given day, the interest rate on ABR Loans shall be determined by Agent without reference to clause (c) of the definition of "Alternate Base Rate" until Agent revokes such determination.

(b) Benchmark Replacement Setting.

(i) Benchmark Replacement. Notwithstanding anything to the contrary in this Agreement or in any Other Document (and any Interest Rate Protection Agreement shall be deemed not to be an "Other Document" for purposes of this Section 3.9(b)), if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any setting of the then-current Benchmark, then (x) if a Benchmark Replacement is determined in accordance with clause (a) or (b) of the definition of "Benchmark Replacement" for such Benchmark Replacement Date, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Other Document in respect of such Benchmark setting and subsequent Benchmark settings without any amendment to, or further action or consent (subject to clause (y) below) of any other party to, this Agreement, or any Other Document and (y) if a Benchmark Replacement is determined in accordance with clause (c) of the definition of "Benchmark Replacement" for such Benchmark Replacement Date, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Other Document in respect of any Benchmark setting at or after 5:00 p.m. (New York City time) on the fifth (5<sup>th</sup>) Business Day after the date notice of such Benchmark Replacement is provided to Borrower without any amendment to, or further action or consent of any other party to, this Agreement or any Other Document.

(ii) Benchmark Replacement Conforming Changes. In connection with the use, administration, adoption or implementation of a Benchmark Replacement, Agent will have the right to make Conforming Changes from time to time and,

notwithstanding anything to the contrary herein or in any Other Document, any amendments implementing such Conforming Changes will become effective on the fifth (5<sup>th</sup>) Business Day after notice to the Borrower without any further action or consent of any other party to this Agreement or any Other Document.

(iii) Notices; Standards for Decisions and Determinations. Agent will promptly notify Borrower of (i) the implementation of any Benchmark Replacement and (iii) the effectiveness of any Conforming Changes in connection with the use, administration, adoption or implementation of a Benchmark Replacement. The Agent will notify the Borrower of (x) the removal or reinstatement of any tenor of a Benchmark pursuant to Section 3.9(b)(iv), and (y) the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by Agent pursuant to this Section 3.9(b), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party to this Agreement or any Other Document, except, in each case, as expressly required pursuant to this Section 3.9(b).

(iv) Unavailability of Tenor of Benchmark. Notwithstanding anything to the contrary herein or in any Other Document, at any time (including in connection with the implementation of a Benchmark Replacement), (i) if the then-current Benchmark is a term rate (including BSBY or Term SOFR) and either (A) any tenor for such Benchmark is not displayed on a screen or other information service that publishes such rate from time to time as selected by Agent in its reasonable discretion, (B) the administrator of such Benchmark or a Governmental Authority having jurisdiction over such administrator with respect to its publication of such Benchmark or a Governmental Authority having jurisdiction over Agent or any Lender, in each case acting in such capacity, has provided a public statement or publication of information identifying a specific date after which any tenor shall or will no longer be made available, or permitted to be used for determining, the interest rate of Dollar-denominated loans, or (C) the administrator of such Benchmark or the regulatory supervisor for the administrator of such Benchmark has provided one or more public statements or publications of information (including by means of a technical note published on the BSBY Website) announcing or indicating in effect, that any tenor for such Benchmark is not or will not be representative or that a BSBY Final Step Event has occurred with respect to any tenor of such Benchmark, Agent may modify the definition of "Interest Period" (or any similar or analogous definition) for any Benchmark settings at or after such time to remove such impacted or non-representative tenor and (ii) if a tenor that was removed pursuant to clause (i) above either (A) is subsequently displayed on a screen or information service for a Benchmark (including a Benchmark Replacement), or (B) is not (or is no longer) subject to an announcement described above, then Agent may modify the definition of "Interest Period" (or any similar or analogous definition) for all Benchmark settings at or after such time to reinstate such previously removed tenor.

(v) Benchmark Unavailability Period. Upon Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, Borrower may revoke any pending request for an Advance of, conversion to or continuation of BSBY Loans to be made, converted or continued during any Benchmark Unavailability Period and, failing that, Borrower will be deemed to have converted any such request into a request for an Advance of or conversion to ABR Loans.

During a Benchmark Unavailability Period or at any time that a tenor for the then-current Benchmark is not an Available Tenor, the component of the Alternate Base Rate based upon the then-current Benchmark or such tenor for such Benchmark, as applicable, will not be used in any determination of the Alternate Base Rate.

(j) Section 3.10 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

3.10 Increased Costs; Illegality.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve (including pursuant to regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement), special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any reserve requirement reflected in the BSBY Rate);

(ii) subject Agent or any Lender to any Taxes (other than Excluded Taxes or Indemnified Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or

(iii) impose on any Lender any other condition, cost or expense (other than Taxes) affecting this Agreement or any Other Document made by any Lender(s) or any Letter of Credit;

and the result of any of the foregoing shall be to increase the cost to such Lender of making, converting to, continuing or maintaining any Revolving Advance or of maintaining its obligation to make any such Revolving Advance, or to increase the cost to such Lender of issuing or maintaining any Letter of Credit (or of maintaining its obligation to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or any other amount) then, upon request of such Lender, Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If Agent determines that any Change in Law affecting any Lender or any Lender's holding company, if any, regarding capital or liquidity requirements, has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if

any, as a consequence of the Note, the Loan Agreement, any commitment of any Lender to make an Advance, the Revolving Advances or any Letters of Credit issued by such Lender, to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section and delivered to Borrower, shall be conclusive absent manifest error. Borrower shall pay such Lender, the amount shown as due on any such certificate within ten (10) days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of a Lender to demand compensation pursuant to this Section shall not constitute a waiver of Agent's or such Lender's right to demand such compensation; provided, that the Borrower shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than nine months prior to the date that such Lender, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof.

(e) Illegality. If Agent determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender to make, maintain or fund loans whose interest is determined by reference to BSBY or the BSBY Rate, or to determine or charge interest rates based upon BSBY or the BSBY Rate, then, upon notice thereof by Agent to Borrower, (a) any obligation of Agent to make BSBY Loans, and any right of Borrower to continue BSBY Loans shall be suspended, and (b) the interest rate on which ABR Loans shall, if necessary to avoid such illegality, be determined by Agent without reference to clause (c) of the definition of "Alternate Base Rate", in each case until Agent notifies Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (i) Borrower shall, if necessary to avoid such illegality, upon demand from Agent or any Lender, prepay or, if applicable, convert all BSBY Loans to ABR Loans (the interest rate on which ABR Loans of Lender shall, if necessary to avoid such illegality, be determined by Agent without reference to clause (c) of the definition of "Alternate Base Rate"), on the last Business Day of the then-current Interest Period therefor in the case of BSBY Loans, if Lender may lawfully continue to maintain such BSBY Loans to such day, or immediately, if Lender may not lawfully continue to maintain such BSBY Loans to such day, and (ii) if necessary to avoid such illegality, Agent shall during the period of such

suspension compute the Alternate Base Rate without reference to clause (c) of the definition of "Alternate Base Rate" in each case until Agent determines that it is no longer illegal for Agent or any Lender to determine or charge interest rates based upon BSBY or the BSBY Rate. Upon any such prepayment or conversion, Borrower shall also pay accrued interest on the amount so prepaid or converted, together with any additional amounts required pursuant to this Agreement.

3. Conditions Precedent. The effectiveness of this Amendment is subject to the following conditions:

(a) The execution and delivery to the Agent and each Lender of this Amendment by the Borrower, Guarantors, the Agent, and the Lenders, in form and substance satisfactory to the Agent and the Lenders;

(b) The Agent and Lenders shall have received all fees payable to Agent and Lenders pursuant to the Agreement on or prior to the date hereof and all other amounts due to the Agent pursuant to the Agreement (including reimbursement of fees and expenses (including fees and expenses of counsel) incurred in connection with this Amendment); and

(c) After giving effect to this Amendment, the representations and warranties set forth in Section 4 of this Amendment shall be true and correct in all respects.

4. Representations and Warranties. The Borrower and each Guarantor hereby represents and warrants to Agent and each Lender that:

(a) the Borrower and each Guarantor is a corporation or limited liability company, as applicable, duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation or organization;

(b) the Borrower and each Guarantor has the power and authority to execute, deliver and perform its obligations under this Amendment;

(c) the execution, delivery and performance by the Borrower and each Guarantor of this Amendment has been duly authorized by all necessary corporate or limited liability company action, as applicable;

(d) this Amendment constitutes the legal, valid and binding obligation of the Borrower and each Guarantor, as applicable, enforceable against each such party in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws limiting creditors' rights generally or by equitable principles relating to enforceability;

(e) no pending or threatened litigation, arbitration, actions or proceedings exist, which if adversely determined could reasonably be expected to result in a Material Adverse Effect;

(f) no material liabilities or indebtedness for borrowed money exist, other than the Obligation and Indebtedness permitted pursuant to Section 7.8 of the Credit Agreement;

(g) since December 31, 2022, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect;

(h) no Default or Event of Default exists and remains continuing or would exist after giving effect to this Amendment and the transactions contemplated hereby; and

(i) all representations and warranties contained in the Credit Agreement are true and correct in all material respects as of the date hereof, except to the extent made as of a specific date, in which case each such representation and warranty were true and correct in all material respects as of such date; provided, that if any representation and warranty is qualified as to materiality or Material Adverse Effect, such representation and warranty is true and correct in all respects as of the date hereof, except to the extent made as of a specific date, in which case each such representation and warranty was true and correct in all respects as of such date.

5. Agreement in Full Force and Effect. The Credit Agreement and the Other Documents shall remain in full force and effect and are hereby ratified and confirmed in all respects. Except as expressly set forth herein, this Amendment shall not be deemed to be an amendment or modification of any provisions of the Credit Agreement or any Other Document or any right, power or remedy of Agent or the Lenders, nor constitute a waiver of any provision of the Credit Agreement or any Other Document, or any other document, instrument and/or agreement executed or delivered in connection therewith or of any Event of Default under any of the foregoing, in each case, whether arising before or after the date hereof or as a result of performance hereunder or thereunder. This Amendment also shall not preclude the future exercise of any right, remedy, power, or privilege available to Agent and/or the Lenders whether under the Credit Agreement or the Other Documents, at law or otherwise and nothing contained herein shall constitute a course of conduct or dealing among the parties hereto. All references to the Credit Agreement shall be deemed to mean the Credit Agreement as modified hereby. This Amendment shall not constitute a novation or satisfaction and accord of the Credit Agreement and the Other Documents. The parties hereto agree to be bound by the terms and conditions of the Credit Agreement and the Other Documents as modified by this Amendment, as though such terms and conditions were set forth herein. Each reference in the Credit Agreement to “this Agreement,” “hereunder,” “hereof,” “herein” or words of similar import shall mean and be a reference to the Credit Agreement as modified by this Amendment, and each reference herein or in any Other Document to the “Credit Agreement” shall mean and be a reference to the Credit Agreement as modified by this Amendment.

6. Counterparts. This Amendment may be executed by one or more of the parties to this Amendment in any number of separate counterparts, each of which when so executed, shall be deemed an original and all said counterparts when taken together shall be deemed to constitute but one and the same instrument. Delivery of counterparts by facsimile or electronic mail shall be deemed equally effective as delivery of originals.



7. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the Borrower and each Guarantor and its successors and assigns and the Agent and each Lender and their respective successors and assigns.

8. Reaffirmation. The Borrower and each Guarantor as debtor, grantor, pledgor, or in other any other similar capacity in which such party grants liens or security interests in its property pursuant to the Loan Documents hereby (a) ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under each of the Loan Documents to which it is a party and (b) ratifies and reaffirms such grant of security interests and liens and confirms and agrees that such security interests and liens hereafter secure all of the Obligations. The Borrower and each Guarantor hereby consents to this Amendment and acknowledges that each of the Loan Documents remains in full force and effect and is hereby ratified and reaffirmed. Except as expressly set forth herein, the execution of this Amendment shall not operate as a waiver of any right, power or remedy of Agent or the Lenders, constitute a waiver of any provision of any of the Loan Documents or serve to effect a novation of the Obligations.

9. Acknowledgment of Rights; Release of Claims. The Borrower and each Guarantor hereby acknowledges that: (a) it has no defenses, claims or set-offs to the enforcement by the Agent or any Lender of such party's liabilities, obligations and agreements on the date hereof; (b) to its knowledge, the Agent and each Lender have fully performed all undertakings and obligations owed to it as of the date hereof; and (c) neither the Agent nor any Lender waives, diminishes or limits any term or condition contained in the Credit Agreement or any of the Other Documents. The Borrower and each Guarantor hereby remises, releases, acquits, satisfies and forever discharges the Agent and each Lender, their respective agents, employees, officers, directors, predecessors, attorneys and all others acting or purporting to act on behalf of or at the direction of the Agent or any Lender ("Releasees"), of and from any and all manner of known and unknown actions, causes of action, suit, debts, accounts, covenants, contracts, controversies, agreements, variances, damages, judgments, claims and demands whatsoever, in law or in equity, which any of such parties ever had, now has or, to the extent arising from or in connection with any act, omission or state of facts taken or existing on or prior to the date hereof, may have after the date hereof against the Releasees, for, upon or by reason of any matter, cause or thing whatsoever through the date hereof. Without limiting the generality of the foregoing, the Borrower and each Guarantor waives and affirmatively agrees not to allege or otherwise pursue any defenses, affirmative defenses, counterclaims, claims, causes of action, setoffs or other rights they do, shall or may have as of the date hereof, including, but not limited to, the rights to contest: (i) the right of Agent and each Lender to exercise their respective rights and remedies described in this Amendment; (ii) any provision of this Amendment, the Credit Agreement or any Other Document; or (iii) any conduct of the Releasees relating to or arising out of the Credit Agreement or the Other Documents on or prior to the date hereof.

10. Costs and Expenses. The Borrower agrees to reimburse the Agent for all fees, costs and expenses, including the fees, costs and expenses of counsel or other advisors for advice, assistance, or other representation in connection with this Amendment.

11. Governing Law. The laws of the Commonwealth of Massachusetts shall govern all matters arising out of, in connection with or relating to this Agreement, including, without limitation, its validity, interpretation, construction, performance and enforcement (including,

without limitation, any claims sounding in contract or tort law arising out of the subject matter hereof and any determinations with respect to post-judgment interest).

12. WAIVER OF JURY TRIAL. THE PARTIES HERETO, TO THE EXTENT PERMITTED BY LAW, WAIVE ALL RIGHT TO TRIAL BY JURY IN AN ACTION, SUIT, OR PROCEEDING ARISING OUT OF, IN CONNECTION WITH OR RELATING TO, THIS AGREEMENT AND ANY OTHER TRANSACTION CONTEMPLATED HEREBY. THIS WAIVER APPLIES TO ANY ACTION, SUIT OR PROCEEDING WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE.

**[Remainder of Page Intentionally Left Blank; Signature Pages Follow]**

IN WITNESS WHEREOF, each of the undersigned has executed this Amendment as of the date set forth above.

**BORROWER:**

PC CONNECTION, INC.,  
a Delaware corporation

By: /s/ Thomas C. Baker  
Name: Tom Baker  
Title: Senior Vice President

**GUARANTORS:**

GOVCONNECTION, INC.,  
a Maryland corporation

By: /s/ Thomas C. Baker  
Name: Tom Baker  
Title: Senior Vice President

PC CONNECTION SALES CORPORATION,  
a Delaware corporation

By: /s/ Thomas C. Baker  
Name: Tom Baker  
Title: Senior Vice President

MORE DIRECT, INC.,  
a Florida corporation

By: /s/ Thomas C. Baker  
Name: Tom Baker  
Title: Senior Vice President

[Signature Page to Fourth Amendment to Third Amended and Restated Credit and Security Agreement]

---

GLOBALSERVE, INC.,  
a New York corporation

By: /s/ Thomas C. Baker

Name: Tom Baker

Title: Senior Vice President

[Signature Page to Fourth Amendment to Third Amended and Restated Credit and Security Agreement]

---

**AGENT:**

CITIZENS BANK, N.A.

By: /s/ Marc J. Lubelczyk  
Name: Marc J. Lubelczyk  
Title: Senior Vice President

**LENDER:**

CITIZENS BANK, N.A.

By: /s/ Marc J. Lubelczyk  
Name: Marc J. Lubelczyk  
Title: Senior Vice President

[Signature Page to Fourth Amendment to Third Amended and Restated Credit and Security Agreement]

---

**CERTIFICATION**

I, Timothy J. McGrath, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PC Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2023

/s/ TIMOTHY J. MCGRATH

---

Timothy J. McGrath  
President and Chief Executive Officer

---

**CERTIFICATION**

I, Thomas C. Baker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PC Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2023

/s/ THOMAS C. BAKER

---

Thomas C. Baker  
Senior Vice President, Chief Financial Officer and Treasurer

---

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

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the “Company”) for the period ended June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Timothy J. McGrath, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2023

/s/ TIMOTHY J. MCGRATH

---

Timothy J. McGrath  
President and Chief Executive Officer

---



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

In connection with the Quarterly Report on Form 10-Q of PC Connection, Inc. (the "Company") for the period ended June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Thomas C. Baker, Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2023

*/s/* THOMAS C. BAKER

---

Thomas C. Baker  
Senior Vice President, Chief Financial Officer and Treasurer

---