

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

PC CONNECTION, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

|   |   |  |
|---|---|--|
| NEW HAMPSHIRE   | 5961  | 02-0372768                                 |
| (STATE OR OTHER<br>JURISDICTION OF<br>INCORPORATION OR<br>ORGANIZATION) | (PRIMARY STANDARD INDUSTRIAL<br>CLASSIFICATION CODE NUMBER) | (I.R.S. EMPLOYER<br>IDENTIFICATION NUMBER) |

528 ROUTE 13  
MILFORD, NEW HAMPSHIRE 03055  
(603) 423-2000  
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF  
REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

PATRICIA GALLUP  
CHAIRMAN OF THE BOARD, PRESIDENT  
AND CHIEF EXECUTIVE OFFICER  
PC CONNECTION, INC.  
528 ROUTE 13  
MILFORD, NEW HAMPSHIRE 03055  
(603) 423-2000  
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,  
OF AGENT FOR SERVICE)

COPIES TO:

|  |  |
|--|--|
| PAUL P. BROUNTAS, ESQ.<br>JAY E. BOTHWICK, ESQ.<br>HALE AND DORR LLP<br>60 STATE STREET<br>BOSTON, MASSACHUSETTS 02109<br>(617) 526-6000 | PHILIP E. COVIELLO, JR., ESQ.<br>LATHAM & WATKINS<br>885 THIRD AVENUE<br>SUITE 1000<br>NEW YORK, NEW YORK 10022-4802<br>(212) 906-1200 |
|--|--|

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as  
practicable after the Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on  
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of  
1933, check the following box.

If this Form is filed to register additional securities for an offering  
pursuant to Rule 462(b) under the Securities Act, check the following box and  
list the Securities Act registration statement number of earlier effective  
registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c)  
under the Securities Act, check the following box and list the Securities Act  
registration statement number of the earlier effective registration statement  
for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d)

under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

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 CALCULATION OF REGISTRATION FEE  
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| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | AMOUNT TO BE REGISTERED | PROPOSED MAXIMUM OFFERING PRICE PER UNIT | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1) (2) | AMOUNT OF REGISTRATION FEE |
|--|-------------------------|--|---|----------------------------|
| Common Stock, \$.01 par value per share.....       |                         |  | \$57,500,000                                      | \$17,425 (3)               |

- (1) Includes shares that the Underwriters have the option to purchase from the Company to cover over-allotments, if any.  
 (2) Estimated solely for the purpose of calculating the registration fee.  
 (3) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SECTION 8(A), MAY DETERMINE.

+++++  
 +INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +  
 +REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +  
 +SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +  
 +OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +  
 +BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +  
 +THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +  
 +SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +  
 +UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +  
 +ANY SUCH STATE. +  
 +++++

SUBJECT TO COMPLETION, DATED JANUARY 14, 1998

PROSPECTUS  
 , 1998

SHARES  
 PC CONNECTION, INC.  
 COMMON STOCK

All the shares of Common Stock, \$0.01 par value per share (the "Common Stock"), offered hereby (the "Offering") are being sold by PC Connection, Inc. ("PC Connection" or the "Company").

Prior to the Offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial price to the public will be between \$ and \$ per share. See "Underwriting" for information relating to the factors to be considered in determining the initial price to the public.

Application has been made for quotation of the Common Stock on the Nasdaq National Market under the symbol "PCCC."

SEE "RISK FACTORS" BEGINNING ON PAGE 7 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

|                | PRICE<br>TO THE<br>PUBLIC | UNDERWRITING<br>DISCOUNTS AND<br>COMMISSIONS (1) | PROCEEDS<br>TO THE<br>COMPANY (2) |
|----------------|---------------------------|--|-----------------------------------|
| Per Share..... | \$                        | \$   | \$                                |
| Total (3)..... | \$                        | \$   | \$                                |

- (1) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting" for indemnification arrangements with the Underwriters.
- (2) Before deducting expenses payable by the Company estimated at \$ .
- (3) The Company has granted to the Underwriters a 30-day option to purchase up to an aggregate of additional shares at the Price to the Public, less Underwriting Discounts and Commissions, solely to cover over-allotments, if any. If the option is exercised in full, the total Price to the Public, Underwriting Discounts and Commissions and Proceeds to the Company will be \$ , \$ and \$ , respectively. See "Underwriting."

The shares of Common Stock are being offered by the several Underwriters subject to prior sale, when, as and if issued and accepted by them, subject to certain prior conditions, including the right of the Underwriters to reject any order in whole or in part. It is expected that delivery of the shares of Common Stock will be made in New York, New York on or about , 1998.

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

NATIONSBANC MONTGOMERY SECURITIES, INC.  
WILLIAM BLAIR & COMPANY

INSIDE FRONT COVER  
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FIRST PAGE OF INSIDE COVER:  
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[ACROSS THE TOP OF THE PAGE:  
PICTURE OF THE RACCOON CHARACTER(R) WITH AWARDS AROUND ITS NECK TO THE LEFT AND THE TEXT "PC CONNECTION YOUR SOURCE FOR COMPUTERS, SOFTWARE AND PERIPHERALS SINCE 1982"]

[IN CENTER OF PAGE:  
PICTURES FROM LEFT TO RIGHT OF THE PC CONNECTION CATALOG, THE PC CONNECTION INTERNET WEB PAGE AND THE MACCONNECTION CATALOG.]

[AT THE BOTTOM LEFT OF THE PAGE:  
7-TIME WINNER BEST MAIL-ORDER COMPANY  
1997 PC WORLD WORLD CLASS LOGO  
1990, 1991, 1992, 1994, 1995, 1996 & 1997]

[AT THE BOTTOM RIGHT OF THE PAGE:  
THE PC MAGAZINE 100 LOGO  
INCLUDED IN PC MAGAZINE'S "100 MOST INFLUENTIAL COMPANIES OF 1997"]

GATEFOLD:  
- - - - -

[AT THE TOP LEFT OF THE GATEFOLD:

PICTURE OF THE PC CONNECTION CATALOG COVER PAGE AND TWO PICTURES OF THE CATALOG OPENED.  
CAPTION: COLORFUL CATALOGS FEATURING PRODUCTS FROM COMPAQ, HEWLETT PACKARD, TOSHIBA, IBM, MICROSOFT, SONY, HITACHI, APPLE AND MANY OTHERS.]

[AT THE TOP RIGHT OF THE GATEFOLD:

PICTURE OF THE PC CONNECTION INTERNET WEB SITE.  
CAPTION: ONLINE SUPERSTORE OFFERS ONLINE ORDERING FOR MORE THAN 15,000 PRODUCTS. FEATURES MANUFACTURER HOTLINKS, A PRODUCT SEARCH ENGINE, AND ONLINE TECHNICAL SUPPORT. WWW.PCCONNECTION.COM]

[CENTER OF THE GATEFOLD:

PC CONNECTION(R) ACROSS THE PAGE]

[AT THE BOTTOM LEFT OF THE GATEFOLD:

PICTURE ABOVE OF A PERSON SERVICING A COMPUTER.  
CAPTION: SERVICE CONNECTION(TM).  
TRAINING PROGRAMS FOR OUR SERVICE AND SUPPORT PERSONNEL EMPHASIZE PUTTING CUSTOMER NEEDS FIRST. THE COMPANY IS OPEN 24-HOURS A DAY, SEVEN DAYS A WEEK TO HANDLE ORDERS AND GENERAL INQUIRIES.

PICTURE BELOW OF INDIVIDUALS PACKING PRODUCTS TO FILL ORDERS AT THE DISTRIBUTION CENTER.

CAPTION: EVERYTHING OVERNIGHT(R)  
CUSTOMERS CAN PLACE THEIR ORDERS AS LATE AS 2:45 A.M. ET AND STILL GET OVERNIGHT DELIVERY.]

[AT THE BOTTOM RIGHT OF THE GATEFOLD:

PICTURE ABOVE OF ONE OF THE COMPANY'S TELEMARKETING ACCOUNT MANAGERS AT HER COMPUTER.  
CAPTION: CORPORATE TELEMARKETING ACCOUNT MANAGERS PURSUE BUYERS IN BUSINESS, GOVERNMENT AND EDUCATION MARKETS.

PICTURE BELOW OF THE RACCOON CHARACTER(R) WITH AWARDS AROUND ITS NECK.  
CAPTION: SINCE 1982 PC CONNECTION HAS EMPHASIZED CUSTOMER SERVICE, WITH PROGRAMS SUCH AS TOLL-FREE TECHNICAL SUPPORT, ONE-MINUTE MAIL ORDER(R) & EVERYTHING OVERNIGHT(R).]

CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK. SPECIFICALLY, THE UNDERWRITERS MAY OVER-ALLOT IN CONNECTION WITH THE OFFERING AND MAY BID FOR AND PURCHASE SHARES OF THE COMMON STOCK IN THE OPEN MARKET. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

#### PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the detailed information and financial statements, including the notes thereto, appearing elsewhere in this Prospectus. Unless otherwise indicated, all information in this Prospectus assumes no exercise of the Underwriters' over-allotment option.

#### THE COMPANY

PC Connection is a leading direct marketer of brand-name personal computers and related peripherals, software, accessories and networking products. The Company's primary target customers are small and medium-sized organizations ("SMORGS") comprised of 20 to 1,000 employees. PC Connection sells its products through a combination of targeted direct mail catalogs, outbound telemarketing, its Internet Web site and advertisements on the Internet and in selected computer magazines. The Company offers a broad selection of approximately 15,000 products targeted for business use at competitive prices, including products from Compaq, Hewlett-Packard, Toshiba, IBM, Microsoft, Sony, Hitachi and Apple. The Company's most frequently ordered products are carried in inventory and are typically shipped to customers the same day that the order is received.

The Company has experienced rapid growth in sales, profitability, number of orders and average order size as a result of: (i) a substantial increase in the number and assortment of products carried by the Company; (ii) increases in outbound telemarketing personnel and improvements in productivity; (iii) increases in catalog circulation; and (iv) improvements in inbound telemarketing productivity. The Company recorded net sales of \$333.3 million and income from operations of \$7.5 million in 1996, representing increases of 32.2% and 193.4%, respectively, over 1995. In the nine months ended September 30, 1997, the Company recorded net sales of \$383.5 million and income from operations of \$12.5 million, representing increases of 70.4% and 182.2%, respectively, over the comparable period in 1996. Net sales of Microsoft Windows or MS-DOS based personal computers ("PCs") and compatible products were approximately 77% of net sales for the nine months ended September 30, 1997.

According to industry data published by Merrin Information Services, Inc. ("Merrin") in May 1997, domestic sales of personal computers and related products were \$77.8 billion in 1996 and are projected to be \$138.2 billion in 2000, representing a compound annual growth rate of 15.4%. The Company believes that the direct marketing channel will be among the fastest growing distribution channels for the domestic personal computer and related products industry. As a leading participant in the direct marketing channel, the Company believes it is well positioned to capitalize on the expected growth in the industry.

The Company's growth strategies are to: (i) increase penetration of its existing customer base; (ii) broaden its product offerings to include higher margin products such as network servers and communications equipment; and (iii) expand its customer base. The Company plans to target a greater number of its existing customers with outbound telemarketing, more aggressively pursue first-to-market product offerings, provide specialized offerings to targeted segments of its customer base and increase its investments in electronic commerce and Internet related marketing opportunities.

Since its founding in 1982, the Company has focused on serving customer needs by providing innovative, reliable and timely customer service and technical support, and offering an extensive assortment of branded products, through knowledgeable, well-trained sales and support teams. The effectiveness of this strategy is reflected in the recognition accorded the Company, including the Company's receipt of the PC World "World Class Award for Best Mail-Order Company" in 1997, as voted by its readers, for the seventh time in the past eight years, and receipt of the highest ranking of only two direct resellers included in the first-ever ranking of the "100 Most Influential Companies in the Computer Industry" by PC Magazine in July 1997.

3

The Company believes that its consistent customer focus has also resulted in the development of strong brand name recognition and a broad and loyal customer base. At September 30, 1997, the Company's mailing list consisted of approximately 2,000,000 customers and potential customers, of which approximately 500,000 had purchased products from the Company within the last twelve months. Approximately 65% of the Company's orders in the nine months ended September 30, 1997 and in the year ended December 31, 1996 were placed by customers who had previously purchased products from the Company. The Company believes it has also developed strong relationships with vendors, resulting in favorable product allocations and marketing assistance.

Commencing in late 1995, the Company significantly increased its business-to-business marketing efforts targeting SMORGS, a rapidly growing sector of the personal computer market that the Company believes is particularly receptive to purchases from direct marketers. To serve this growing part of its business more effectively, the Company has increased the number of its outbound telemarketing account managers from 48 at December 31, 1995 to 156 at September 30, 1997, including 86 new account managers with less than 12 months of outbound telemarketing experience with the Company. Historically, outbound account managers become significantly more productive in their second year with the Company. In addition, in late 1995 the Company initiated programs to increase training of inbound telemarketing personnel and to provide incentive compensation based upon sales productivity.

The Company's two major catalogs are PC Connection(R), focused on PCs and compatible products, and MacConnection(R), focused on Apple Macintosh personal computers ("Macs") and compatible products. With colorful illustrations,

concise product descriptions, relevant technical information, along with customer service benefits and toll-free telephone numbers for ordering, the Company's catalogs are recognized as a leading source for personal computer hardware, software and other related products. The Company distributed approximately 24 million catalogs during the nine months ended September 30, 1997.

The Company also markets its products and services through its Internet Web site, [www.pcconnection.com](http://www.pcconnection.com), which provides customers and prospective customers with Company and product information and enables customers to place electronic orders for all of the Company's products. The Company believes that as the Internet becomes a more important commercial medium, it will be well positioned to capitalize on growth through this emerging channel.

The Company operates in a competitive industry and there can be no assurance that the Company will sustain historical growth rates. See "Risk Factors."

The Company has a 102,000-square foot, full-service distribution and order fulfillment center in Wilmington, Ohio and a related 25,700-square foot warehouse in Xenia, Ohio. The Company also operates telemarketing centers in Hudson, Keene and Milford, New Hampshire.

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The Company's principal executive offices are located at 528 Route 13, Milford, New Hampshire 03055, and its telephone number is (603) 423-2000. The Company's Internet Web site is located at [www.pcconnection.com](http://www.pcconnection.com). Neither the information contained in the Company's Internet Web site nor Internet Web sites linked to the Company's Internet Web site shall be deemed to be a part of this Prospectus.

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PC Connection(R), MacConnection(R) and Everything Overnight(R) are registered trademarks of the Company. This Prospectus also includes product and company names, trademarks and trade names of companies other than the Company.

#### REORGANIZATION OF THE COMPANY

The Company was incorporated in New Hampshire in September 1983 and expects to amend and restate its Articles of Incorporation immediately prior to consummation of the Offering. Pursuant to this amendment the Company will convert all of the issued and outstanding shares of Series A Non-Voting Common Stock, \$.01 par value per share, (the "Non-Voting Common Stock") and Series B Voting Common Stock, \$.01 par value per share (the "Voting Common Stock" and together with the Non-Voting Common Stock, the "Company Common Stock"), into a single series of Voting Common Stock, \$0.01 par value per share, on a -for-one basis (the "Recapitalization").

For all periods described in the Prospectus, the Company has elected to be treated as an S Corporation under Subchapter S of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable state tax laws. As a result of the S Corporation status of the Company, the stockholders of the Company were taxed directly on the earnings of the Company. Upon the consummation of the Offering, the status of the Company as an S Corporation will terminate and the Company will be subject to federal and state income taxes at applicable corporate tax rates (the "S Corporation Termination," and together with the Recapitalization, the "Reorganization"). Prior to the consummation of the Offering, the Company will declare a dividend (the "S Corporation Dividend") to its then existing stockholders (the "S Corporation Stockholders") in the aggregate amount of approximately \$ million, which amount is equal to substantially all previously taxed, but undistributed, S Corporation earnings. After the consummation of the Offering, the Company will use a portion of the net proceeds from the Offering to pay the S Corporation Dividend to the S Corporation Stockholders. See "Use of Proceeds."

#### THE OFFERING

Common Stock offered by the

Company..... shares  
Common Stock to be outstanding after  
the Offering..... shares(1)  
Use of Proceeds..... Repayment of debt; payment of the S  
Corporation Dividend; and working capital  
and other general corporate purposes. See  
"Use of Proceeds."  
Proposed Nasdaq National Market  
symbol..... PCCC

(1) Does not include (a) shares of Common Stock issuable upon the exercise of stock options outstanding as of December 31, 1997 with a weighted average exercise price of \$ per share and (b) an additional shares of Common Stock reserved for future issuance under the Company's 1993 Incentive and Non-Statutory Stock Option Plan, 1997 Stock Incentive Plan and 1997 Employee Stock Purchase Plan.

SUMMARY FINANCIAL AND OPERATING DATA

|   | YEAR ENDED DECEMBER 31, |            |            |            | NINE MONTHS ENDED<br>SEPTEMBER 30, |                       |
|---|-------------------------|------------|------------|------------|------------------------------------|-----------------------|
|   | 1992                    | 1993       | 1994       | 1995       | 1996                               | 1997                  |
| (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA)                  |                         |            |            |            |                                    |                       |
| STATEMENT OF OPERATIONS   |                         |            |            |            |                                    |                       |
| DATA:   |                         |            |            |            |                                    |                       |
| Net sales.....  | \$ 147,627              | \$ 163,390 | \$ 196,659 | \$ 252,217 | \$ 333,322                         | \$ 225,074 \$ 383,460 |
| Gross profit.....   | 25,748                  | 26,124     | 30,702     | 40,918     | 51,205                             | 35,430 53,452         |
| Income (loss) from<br>operations.....   | 1,242                   | (3,478)    | (1,951)    | 2,545      | 7,466                              | 4,425 12,487          |
| Net income (loss).....  | 124                     | (3,385)    | (2,341)    | 1,273      | 4,756                              | 2,101 2,452           |
| PRO FORMA DATA(1):  |                         |            |            |            |                                    |                       |
| Net income.....   |                         |            |            | \$ 3,750   |                                    | \$ 6,967              |
| Net income per share.....   |                         |            |            | \$         |                                    | \$                    |
| Weighted average number of common and common equivalent shares<br>outstanding(2)..... |                         |            |            |            |                                    |                       |
| SELECTED OPERATING DATA:  |                         |            |            |            |                                    |                       |
| Active customers(3)....   | 246,000                 | 258,000    | 295,000    | 353,000    | 424,000                            | 401,000 492,000       |
| Catalogs distributed...   | 6,000,000               | 10,000,000 | 16,900,000 | 16,800,000 | 18,600,000                         | 11,200,000 24,000,000 |
| Orders entered(4).....  | 661,000                 | 695,000    | 803,000    | 854,000    | 910,000                            | 628,000 891,000       |
| Average order size.....   | \$ 248                  | \$ 264     | \$ 282     | \$ 346     | \$ 453                             | \$ 445 \$ 512         |

AS OF SEPTEMBER 30, 1997

|  | ACTUAL | PRO FORMA<br>PRO FORMA(5)<br>AS ADJUSTED(6) |
|--|--------|---|
|--|--------|---|

BALANCE SHEET DATA:

|  |          |            |
|--|----------|------------|
| Working capital.....                       | \$16,477 | \$ (8,202) |
| Total assets.....                          | 95,549   | 99,774     |
| Short-term debt.....                       | 9,380    | 9,380      |
| Long-term debt (less current portion)..... | 3,500    | 3,500      |
| Total stockholders' equity (deficit).....  | 21,280   | (2,220)    |

(1) The pro forma adjustments give effect to (i) the elimination of additional stockholder/officer compensation expense of \$1,139 and \$8,540 for the year ended December 31, 1996 and the nine months ended September 30, 1997, respectively, representing amounts in excess of aggregate annual base salaries of \$600 to be in effect as of the closing date of the Offering and (ii) the Reorganization, including the provision for income taxes at an assumed rate of 39% based upon pro forma income of the Company as if it had not elected to be treated as an S Corporation. Increases in taxes amounted

to \$2,145 and \$4,025 for the year ended December 31, 1996 and the nine months ended September 30, 1997, respectively.

- (2) The pro forma weighted average number of common and common equivalent shares outstanding assumes that (i) all shares of stock issuable upon exercise of all stock options granted in 1997 were outstanding and (ii) a number of shares determined by dividing (x) the S Corporation Dividend (which if made at September 30, 1997 would have approximated \$26,000) by (y) the mid-point of the range set forth on the cover page of this Prospectus, were outstanding.
- (3) All customers included in the Company's mailing list who have made a purchase within the last twelve-month period.
- (4) Does not reflect cancellations or returns.
- (5) Reflects the declaration of the S Corporation Dividend estimated to be in the amount of \$26,000 at September 30, 1997 and establishment of net deferred income tax assets of approximately \$2,500 resulting from the termination of the Company's S Corporation status.
- (6) Adjusted to give effect to the Reorganization, the Offering and the application of the estimated net proceeds therefrom.

6

#### RISK FACTORS

In addition to the other information contained in this Prospectus, the following factors should be carefully considered by prospective investors when evaluating an investment in the Common Stock offered hereby.

##### RISKS ASSOCIATED WITH RAPID GROWTH

Net sales have grown from \$147.6 million for the year ended December 31, 1992 to \$383.5 million for the nine months ended September 30, 1997. This growth has placed increasing demands on the Company's management resources and facilities. The Company's business strategy is to pursue additional growth and expand its customer base, which is likely to result in additional demands on the Company's resources. The Company's future success will depend in part on the ability of the Company to manage any future growth effectively. There can be no assurance that the Company will realize future growth in net sales or will not experience decreases in net sales. See "Business--Growth Strategy."

##### RISKS RELATED TO TRANSITION OR EXPANSION OF FACILITIES

In November 1997, the Company entered into a fifteen-year lease for a new 103,000 square foot corporate headquarters facility in Merrimack, New Hampshire with a company controlled by the Company's principal stockholders. Significant renovation to this facility is required prior to occupancy by the Company. The Company expects to relocate its operations to this new facility and vacate its current leased facility in Milford, New Hampshire in the summer of 1998. The Company will likely incur certain moving and other costs, not expected to exceed \$500,000, relating to this relocation which would be charged to operating results in the period incurred. Any significant delay in the renovation of the new facility, or unanticipated expense, capital cost or disruption of the Company's business or operations caused by the relocation to the new facility, could have a material adverse effect on the Company's financial position, results of operations and cash flows. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Certain Transactions--Leases."

Additional and/or alternative facilities for distribution and inventory may be required to support significant future growth in the Company's net sales, if realized. There can be no assurance that suitable facilities will be available, and in the absence of such facilities, future growth could be impaired. See "Business--Distribution" and "Business--Facilities."

If the Company is unable to generate increased sales and gross profit sufficient to absorb increased overhead and other costs associated with its relocation and potential expansion, the Company would likely experience lower profit margins which could have a material adverse effect on the Company's financial position, results of operations and cash flows.

##### DEPENDENCE ON MANAGEMENT INFORMATION SYSTEMS

The Company's success is dependent on the accuracy, reliability and proper



use of its management information systems, including its telephone system, and the information generated by its management information systems. The Company does not currently have redundant systems for all functions performed by its management information systems or a redundant or back-up telephone system. Any interruption in these systems or in telephone service could have a material adverse effect on the Company's financial position, results of operations and cash flows.

The Company recognizes the need to continually upgrade its management information systems to most effectively manage its operations and customer data base. The Company plans to convert its order management and fulfillment systems to new software by the end of the second quarter of 1998. There can be no assurance that the transition to the new software will be accomplished without interrupting the Company's business. This new software is designed to be Year 2000 compliant, however, there can be no assurance that the software contains all necessary data code changes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Management Information Systems."

7

#### RAPID TECHNOLOGICAL CHANGE AND EXPOSURE TO INVENTORY OBSOLESCENCE

The market for personal computer products is characterized by rapid technological change and the frequent introduction of new products and product enhancements. The Company's success depends in part on its ability to identify and market products that meet the needs of the marketplace. In order to satisfy customer demand and to obtain favorable purchasing discounts, the Company expects to carry increased inventory levels of certain products in the future, which will subject it to increased risk of inventory obsolescence. In the implementation of its business strategy, the Company intends, among other things, to place larger than typical inventory stocking orders, increase its participation in first-to-market purchase opportunities, and may in the future participate in end-of-life-cycle purchase opportunities and market products on a private-label basis, all of which will further increase the risk of inventory obsolescence. Special purchase products are sometimes acquired without return privileges and there can be no assurance that the Company will be able to avoid losses related to obsolete inventory. In addition, some manufacturers provide the Company with co-op advertising support in the form of products, for which there may be no return privileges. Finally, certain build-to-order programs currently being implemented by some computer systems manufacturers will likely include reductions in the levels of price protection and product returns made available by such manufacturers. See "Business--Products and Merchandising."

#### AVAILABILITY AND ALLOCATION OF GOODS

The Company acquires products for resale from manufacturers as well as from distributors. Purchases of products from the five vendors supplying the greatest amount of goods to the Company constituted 48.0% and 47.2%, respectively, of the Company's total product purchases in the year ended December 31, 1996 and the nine months ended September 30, 1997. Among these five vendors, purchases from Ingram Micro, Inc. ("Ingram Micro") represented 28.4% and 29.5%, respectively, of the Company's total product purchases in the year ended December 31, 1996, and the nine months ended September 30, 1997. No other vendor supplied more than 10% of the Company's total product purchases in the year ended December 31, 1996 or the nine months ended September 30, 1997. The loss of Ingram Micro could cause a short-term disruption in the availability of products and could have a material adverse effect on the Company's financial position, results of operations and cash flows.

Sales of products dependent on the Mac platform, including products manufactured by Apple Computer, Inc. ("Apple"), represented 23.0% and 22.6% of the Company's net sales in the year ended December 31, 1996 and the nine months ended September 30, 1997, respectively. Apple has been experiencing a decline in revenues and in its share of the worldwide and domestic personal computer markets, as well as operating losses. In November 1997, Apple announced that it will sell built-to-order computers directly to customers over the Internet. The Company cannot predict whether this action by Apple will affect the future supply of Macs to the Company. The Company's sales of personal computers and other products manufactured by Apple may be limited if the Company's reseller agreement with Apple is curtailed or terminated or if product availability or financing is otherwise restricted. Any decline in the availability of, or demand for, Macs may have a material adverse effect on the

Company's financial position, results of operations and cash flows. See "Business--Products and Merchandising."

Substantially all of the Company's contracts and arrangements with its vendors that supply significant quantities of products are terminable by such vendors or the Company without notice or upon short notice. Most of the Company's product vendors provide the Company with trade credit, of which the net amount outstanding at September 30, 1997 was \$39.1 million. Termination, interruption or contraction of the Company's relationships with its vendors, including a reduction in the level of trade credit provided to the Company, could have a material adverse effect on the Company's financial position, results of operations and cash flows. See "Business--Purchasing and Vendor Relations."

Certain product manufacturers either do not permit the Company to sell the full line of their products or limit the number of product units available to direct marketers such as the Company. An element of the

8

Company's business strategy is to increase its participation in first-to-market purchase opportunities. In the past, availability of certain desired products, especially in the direct marketing channel, has been constrained. The inability to source first-to-market purchase or similar opportunities, or the reemergence of significant availability constraints, could have a material adverse effect on the Company's financial position, results of operations and cash flows.

#### RELIANCE ON VENDOR SUPPORT AND RELATIONSHIPS

Some product manufacturers and distributors provide the Company with substantial incentives in the form of payment discounts, supplier reimbursements, price protection and rebates. No assurance can be given that the Company will continue to receive such incentives or that it will be able to collect outstanding amounts relating to these incentives in a timely manner or at all.

Most product manufacturers provide the Company with co-op advertising support in exchange for product coverage in the Company's catalogs. This support significantly defrays the expense of catalog production. The level of co-op advertising support available to the Company from certain manufacturers has declined. The level of support from some manufacturers may further decline in the future. Such a decline could increase the Company's selling, general and administrative expenses as a percentage of sales and have a material adverse effect on the Company's financial position, results of operations and cash flows. See "Business--Purchasing and Vendor Relations."

#### COMPETITIVE RISKS

The Company competes with many national and international direct marketers; product manufacturers that sell directly to end users; specialty personal computer retailers; personal computer and general merchandise superstores; consumer electronic and office supply stores; and shopping services on television, the Internet and commercial on-line networks. The Company competes not only for customers, but also for co-op advertising support from personal computer product manufacturers. Some of the Company's competitors are larger and have substantially greater financial resources, superior operating results, and larger catalog circulations and customer bases than the Company. In addition, several direct marketers have recently been acquired by larger competitors. This industry consolidation could result in short-term price-cutting in certain markets. There can be no assurance that the Company will be able to compete effectively with existing competitors or any new competitors that may enter the market, or that the Company's financial position, results of operations and cash flows will not be adversely affected by intensified competition. See "Business--Competition."

#### PRICING RISKS

The personal computer industry has experienced intense price competition. The Company believes that price competition may increase in the future and that such competition could result in a reduction of the Company's profit margins. Also, the Company has recently increased its sales of personal computer hardware products that generally produce lower profit margins than those associated with software products. Significant margin decreases could

have a material adverse effect on the Company's financial position, results of operations and cash flows. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### ECONOMIC RISKS

The market for personal computers and related products has grown rapidly in recent years. Recent statements by industry observers have indicated that there may be a slowdown in the growth rate of the personal computing industry. If the growth of this market or the direct marketing channel were to cease or decrease, the Company's financial position, results of operations and cash flows would be materially adversely affected. Demand for many of the products carried by the Company may be subject to economic cycles. The Company's business and growth could be affected by the spending patterns of existing or prospective customers, a recession or prolonged economic slowdown, the cyclical nature of capital expenditures of businesses, continued

9

competition and pricing pressures and other trends in the general economy, any one of which could have a material adverse effect on the Company's financial position, results of operations and cash flows.

#### DEPENDENCE ON THIRD PARTY SHIPPERS

The Company ships approximately 90% of its products to customers by Airborne Freight Corporation D/B/A "Airborne Express" ("Airborne Express"), with the remainder being shipped by United Parcel Service of America, Inc. and other overnight delivery and surface services. Strikes or other service interruptions by such shippers could adversely affect the Company's ability to market or deliver product on a timely basis and have a material adverse effect on the Company's financial position, results of operations and cash flows. See "Business--Distribution."

#### POTENTIAL INCREASES IN SHIPPING, PAPER AND POSTAGE COSTS

Shipping costs are a significant expense in the operation of the Company's business. The Company generally invoices customers for shipping and handling charges. There can be no assurance that the full cost, including any future increases in the cost, of commercial delivery services can be passed on to the Company's customers, which could have a material adverse effect on the Company's financial position, results of operations and cash flows. See "Business--Distribution" and "Business--Marketing and Sales."

The Company also incurs substantial paper and postage costs related to its marketing activities, including its catalog production and mailings. Any increases in postal or paper costs could have a material adverse effect on the Company's financial position, results of operations and cash flows.

#### HISTORICAL NET LOSSES; VARIABILITY OF QUARTERLY RESULTS

The Company has experienced significant fluctuations in its operating results, and these fluctuations may continue in the future. The Company incurred net losses in the years ended December 31, 1993 and 1994. The Company's results of operations are significantly affected by many factors, including seasonal and other fluctuations in demand for personal computer products and in profit margins on products sold, catalog timing and circulation, product availability, and timing of releases of new and upgraded products. Many of these factors are outside the control of the Company. The Company's operating results are heavily dependent upon its ability to predict sales levels, monitor and control associated expenses, and carefully manage all aspects of its operations, including product selection and pricing, purchasing and payables practices, inventory management, and catalog funding, production and circulation. If revenues do not meet expectations in any given quarter, or if the Company experiences difficulty in monitoring or controlling associated expenses, the Company's financial position, results of operations and cash flows may be materially adversely affected. There can be no assurance that the Company will be profitable on a quarterly or annual basis. It is possible that in some future quarter the expectations of public market analysts and investors will exceed the Company's operating results. In such event, the price of the Common Stock would likely be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Selected Quarterly Financial Results."

## CHANGING METHODS OF DISTRIBUTION

The manner in which personal computers and related products are distributed and sold is changing, and new methods of distribution and sale, such as on-line shopping services, have emerged. Hardware and software manufacturers have sold, and may intensify their efforts to sell, their products directly to end users. From time to time, certain manufacturers have instituted programs for the direct sales of large order quantities of hardware and software to certain major corporate accounts. These types of programs may continue to be developed and used by various manufacturers. Certain of the Company's vendors, including Apple, Compaq Computer Corporation ("Compaq") and International Business Machine Corporation ("IBM"), currently sell some of their products directly to end users. In addition, manufacturers may attempt to increase the volume of software products distributed electronically to end users. An increase in the volume of products sold through or used by consumers of any of these competitive programs or distributed electronically to end users could have a material adverse effect on the Company's financial position, results of operations and cash flows.

10

## STATE SALES OR USE TAX COLLECTION UNCERTAINTIES

The Company presently collects sales tax only on sales of products to residents of the State of Ohio. Sales to customers located within the State of Ohio were approximately 2% of the Company's net sales during the nine months ended September 30, 1997. Various states have sought to impose on direct marketers the burden of collecting state sales taxes on the sales of products shipped to their residents. The United States Supreme Court recently affirmed its position that it is unconstitutional for a state to impose sales or use tax collection obligations on an out-of-state mail order company whose only contacts with the state are limited to the distribution of catalogs and other advertising materials through the mail and the subsequent delivery of purchased goods by United States mail or by interstate common carrier. However, legislation that would expand the ability of states to impose sales tax collection obligations on direct marketers has been introduced in Congress on many occasions. Due to its presence on various forms of electronic media and other factors, the Company's contact with many states may exceed the contact involved in the Supreme Court case. The Company cannot predict the level of contact that is sufficient to permit a state to impose on the Company a sales tax collection obligation. If the Supreme Court changes its position or if legislation is passed to overturn the Supreme Court's recent decision, the imposition of a sales or use tax collection obligation on the Company in states to which it ships products would result in additional administrative expenses to the Company, could result in price increases to the customer, and could reduce demand for the Company's products or could otherwise have a material adverse effect on the Company's financial position, results of operations and cash flows.

## DEPENDENCE ON KEY PERSONNEL

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

## CONTROL BY PRINCIPAL STOCKHOLDERS

After consummation of the Offering, Patricia Gallup and David Hall, the principal stockholders of the Company, will beneficially own or control, in the aggregate, approximately % of the outstanding shares of Common Stock ( % if the Underwriters' over-allotment option is exercised in full). Because of their beneficial stock ownership, these stockholders will be able to continue to elect the members of the Board of Directors and decide all matters requiring stockholder approval. The Company has entered into various transactions with the principal stockholders. See "Principal Stockholders" and "Certain Transactions."

## NO PRIOR PUBLIC MARKET; POSSIBLE VOLATILITY OF STOCK PRICE

Prior to the Offering, there has been no public market for the Common Stock. The initial public offering price of the Common Stock will be determined by negotiations between the Company and the Representatives of the Underwriters, and may not be indicative of the market price for the Common Stock in the future. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. There can be no assurance that an active trading market for the Common Stock will develop or be sustained after the Offering. If a trading market develops, the market price of the Common Stock may fluctuate widely as a result of various factors, such as period-to-period fluctuations in the Company's operating results, sales of Common Stock by principal stockholders, developments in the personal computer industry or the methods of distribution of personal computer products, competitive factors, regulatory developments, economic and other external factors, general market conditions, and market conditions affecting stocks of personal computer

11

products manufacturers and resellers in particular. The stock market in general, and the stocks of personal computer product resellers in particular, have in the past experienced extreme volatility in trading prices and volumes that has often been unrelated to operating performance. Such market volatility may have a significant adverse affect on the market price and marketability of the Common Stock. See "Underwriting."

## SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the Offering, the Company will have        shares of Common Stock outstanding. The shares of Common Stock sold in the Offering will be freely tradeable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"), unless held by an "affiliate" of the Company, as that term is defined under Rule 144 of the Securities Act, which shares will be subject to the resale limitations of Rule 144. In connection with the Offering, the existing stockholders and holders of stock options exercisable within 180 days after the date of this Prospectus have agreed not to dispose of any shares for a period of 180 days from the date of this Prospectus, and the Company has agreed not to dispose of any shares (other than shares sold by the Company in the Offering or issuances by the Company of certain employee stock options and shares covered thereby) for a period of 180 days from the date of this Prospectus, without the prior written consent of Donaldson, Lufkin and Jenrette Securities Corporation. Upon expiration of such 180-day period, all shares of Common Stock held by the existing stockholders (        shares) will be eligible for sale subject to certain volume and other limitations of Rule 144 under the Securities Act applicable to "affiliates" of the Company and all shares of stock acquired upon exercise of stock options may be sold pursuant to a registration statement to be filed by the Company. No prediction can be made as to the effect, if any, that market sales of shares of Common Stock or the availability of shares of Common Stock for sale will have on the market price of the Common Stock from time to time. The sale of a substantial number of shares held by the existing stockholders, whether pursuant to a subsequent public offering or otherwise, or the perception that such sales could occur, could adversely affect the market price of the Common Stock and could materially impair the Company's future ability to raise capital through an offering of equity securities. See "Shares Eligible for Future Sale" and "Underwriting."

## IMMEDIATE AND SUBSTANTIAL DILUTION

Investors in the Common Stock in the Offering will experience immediate and substantial dilution in the net tangible book value of their shares. Assuming an initial public offering price of \$        per share, dilution to new investors would be \$        per share. Additional dilution will occur upon exercise of outstanding stock options. If the Company seeks additional capital in the future, the issuance of shares or convertible debt to obtain such capital may lead to further dilution. See "Dilution."

12

## USE OF PROCEEDS

The net proceeds to the Company from the sale of the \_\_\_\_\_ shares of Common Stock offered by the Company hereby are estimated to be approximately \$ \_\_\_\_\_ (\$ \_\_\_\_\_ if the Underwriters' over-allotment option is exercised in full), after deducting estimated underwriting discounts and commissions and estimated offering expenses, based on an assumed initial price to the public of \$ \_\_\_\_\_ per share (the mid-point of the range set forth on the cover page of this Prospectus).

The Company plans to use approximately \$ \_\_\_\_\_ of the net proceeds from the Offering to repay bank indebtedness comprising \$ \_\_\_\_\_ million of term debt and \$ \_\_\_\_\_ million of short-term borrowings, each having a maturity date of March 31, 2002, and bearing interest at the prime rate (8.0% per annum at the date of this Prospectus), and approximately \$ \_\_\_\_\_ of the net proceeds from the Offering to pay the S Corporation Dividend.

The Company intends to use any remaining net proceeds for general corporate purposes, including working capital. Pending such uses, the net proceeds of the Offering will be invested in interest-bearing or dividend-bearing, investment grade securities.

#### DIVIDEND POLICY

The Company currently intends to retain its future earnings and has no plans to pay cash dividends in the foreseeable future, other than the declaration of the S Corporation Dividend (estimated to be approximately \$ \_\_\_\_\_ million) prior to the consummation of the Offering. The payment of future dividends will be determined by the Board of Directors of the Company in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors. There can be no assurance that the Company will determine to pay any cash dividends in the future.

13

#### CAPITALIZATION

The following table sets forth the cash, debt and capitalization of the Company as of September 30, 1997 (i) on an actual basis, (ii) on a pro forma basis reflecting the S Corporation Dividend and the S Corporation Termination and (iii) on a pro forma as adjusted basis reflecting the sale of shares of Common Stock offered hereby and the application of the estimated net proceeds from the Offering based on an assumed initial price to the public of \$ \_\_\_\_\_ per share (the mid-point of the range set forth on the cover page of this Prospectus).

|  | AS OF SEPTEMBER 30, 1997                      |                  |                              |
|--|---|------------------|------------------------------|
|  | ACTUAL  | PRO<br>FORMA (1) | PRO FORMA AS<br>ADJUSTED (2) |
|  | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) |                  |                              |
| Cash.....  | \$ 723  | \$ 723           | \$                           |
| Short-term borrowings.....   | \$ 8,130                                      | \$ 8,130         | \$                           |
| Dividends payable.....   | --  | 26,000           |                              |
| Long-term debt (including current portion).....  | 4,750   | 4,750            |                              |
| Total debt.....  | 12,880  | 38,880           |                              |
| Stockholders' equity (deficiency):   |   |                  |                              |
| Common stock, \$.01 par value: 7,500,000 shares of Non-Voting Common Stock and 2,500,000 shares of Voting Common Stock authorized, and 6,750,000 shares of Non-Voting Common Stock and 2,250,000 shares of Voting Common Stock issued and outstanding, actual and pro forma; _____ shares of Common Stock authorized, and _____ shares of Common Stock issued and outstanding, pro forma as adjusted(2)..... |   | 90               | 90                           |
| Preferred stock, \$.01 par value: _____ shares authorized and none issued and outstanding pro forma as adjusted(2)..   |   |                  |                              |

|  |           |           |       |
|--|-----------|-----------|-------|
| Additional paid in-capital (deficiency)..... | 4,037     | (2,310)   |       |
| Retained earnings.....                       | 17,153    | --        |       |
|  | -----     | -----     | ----- |
| Total stockholders' equity (deficiency)..... | 21,280    | (2,220)   |       |
|  | -----     | -----     | ----- |
| Total capitalization.....                    | \$ 34,160 | \$ 36,660 | \$    |
|  | =====     | =====     | ===== |

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- (1) Reflects the declaration of the S Corporation Dividend estimated to be in the amount of \$26,000 at September 30, 1997 and establishment of net deferred income tax assets of approximately \$2,500 resulting from the termination of the Company's S Corporation status.
- (2) Gives effect to the Reorganization, the Offering and the application of the estimated net proceeds therefrom. Excludes (a) shares of Common Stock issuable upon the exercise of stock options outstanding as of September 30, 1997 with a weighted average exercise price of \$ per share and (b) an additional shares of Common Stock reserved for future issuance under the Company's 1993 Incentive and Non-Statutory Stock Option Plan, 1997 Stock Incentive Plan and 1997 Employee Stock Purchase Plan.

DILUTION

At September 30, 1997, after giving effect to (i) the Reorganization and (ii) payments of the S Corporation Dividend the Company had a pro forma net tangible book value of approximately \$ or \$ per share of Common Stock. "Net tangible book value" represents the amount of total assets less total liabilities divided by the number of shares of Common Stock outstanding. Without taking into account any other changes in the net tangible book value after September 30, 1997, other than to give effect to the sale of the shares of Common Stock offered by the Company hereby at an assumed initial public offering price of \$ per share (the mid-point of the range set forth on the cover page of this Prospectus) after deducting estimated underwriting discounts and offering expenses payable by the Company, the pro forma net tangible book value of the Company as of September 30, 1997 would have been approximately \$ or \$ per share. This represents an immediate increase in net tangible book value of \$ per share to the existing stockholders and an immediate dilution of \$ per share to new investors. The following table illustrates this per share dilution:

|  |       |
|--|-------|
| Assumed initial public offering price.....                             | \$    |
| Pro forma net tangible book value as of September 30, 1997.....        | \$    |
| Increase in net tangible book value attributable to new investors..... |       |
| Pro forma net tangible book value after the Offering.....              | ----- |
| Dilution to new investors.....   | \$    |
|  | ===== |

The following table summarizes on a pro forma basis, as of September 30, 1997, the differences between existing stockholders and new investors in the Offering (at an assumed initial public offering price of \$ per share) with respect to the number of shares of Common Stock purchased from the Company, the total consideration paid and the average price per share paid:

|                         | SHARES PURCHASED |         | TOTAL CONSIDERATION |         | AVERAGE PRICE PER SHARE |
|-------------------------|------------------|---------|---------------------|---------|-------------------------|
|                         | NUMBER           | PERCENT | AMOUNT              | PERCENT |                         |
| Existing stockholders.. |                  | %       | \$                  | %       | \$                      |
| New investors.....      |                  | %       |                     | %       | \$                      |

|            |       |      |       |       |
|------------|-------|------|-------|-------|
|            | ----- | ---  | ----- | ----- |
| Total..... |       | 100% | \$    | 100%  |
|            | ===== | ===  | ===== | ===== |

As of September 30, 1997, options to purchase \_\_\_\_\_ shares of Common Stock were outstanding with a weighted average exercise price of \$ \_\_\_\_\_ per share and are not reflected in the above tables. See "Capitalization," "Management--Stock Option Plans" and Notes 7 and 12 of the Financial Statements.

SELECTED FINANCIAL AND OPERATING DATA

The following selected financial and operating data should be read in conjunction with the Company's Financial Statements and the Notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere herein. The selected data presented below under the captions "Statement of Operations Data" and "Balance Sheet Data" for each of the years in the five-year period ended December 31, 1996 and the nine months ended September 30, 1997 are derived from the audited financial statements of the Company. The financial statements as of December 31, 1995 and 1996 and September 30, 1997, and for each of the years in the three-year period ended December 31, 1996 and for the nine months ended September 30, 1997, and the independent auditors' report thereon, are included elsewhere in this Prospectus. The selected data presented below for the nine months ended September 30, 1996 are derived from the unaudited financial statements of the Company appearing elsewhere in the Prospectus. In the opinion of management, the unaudited financial statements for the nine months ended September 30, 1996 include all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation of the results for such period. The results of operations for the nine months ended September 30, 1997 are not necessarily indicative of the results to be expected for the year ended December 31, 1997.

|  | YEAR ENDED DECEMBER 31, |            |            |            |            | NINE MONTHS ENDED<br>SEPTEMBER 30, |            |
|--|-------------------------|------------|------------|------------|------------|------------------------------------|------------|
|  | 1992                    | 1993       | 1994       | 1995       | 1996       | 1996                               | 1997       |
| (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SELECTED OPERATING DATA)               |                         |            |            |            |            |                                    |            |
| STATEMENT OF OPERATIONS  |                         |            |            |            |            |                                    |            |
| DATA:  |                         |            |            |            |            |                                    |            |
| Net sales.....   | \$ 147,627              | \$ 163,390 | \$ 196,659 | \$ 252,217 | \$ 333,322 | \$ 225,074                         | \$ 383,460 |
| Cost of sales.....   | 121,879                 | 137,266    | 165,957    | 211,299    | 282,117    | 189,644                            | 330,008    |
| Gross profit.....  | 25,748                  | 26,124     | 30,702     | 40,918     | 51,205     | 35,430                             | 53,452     |
| Selling, general and administrative expenses.....                                  | 24,506                  | 29,602     | 32,653     | 38,373     | 43,739     | 31,005                             | 40,965     |
| Income (loss) from operations.....   | 1,242                   | (3,478)    | (1,951)    | 2,545      | 7,466      | 4,425                              | 12,487     |
| Interest expense.....  | (76)                    | (274)      | (594)      | (1,296)    | (1,269)    | (803)                              | (933)      |
| Other, net.....  | 90                      | 367        | 80         | 62         | 70         | 20                                 | (43)       |
| Income taxes(1).....   | (32)                    | --         | 124        | (38)       | (252)      | (134)                              | (429)      |
| Additional stockholder/officer compensation(2).....                                | (1,100)                 | --         | --         | --         | (1,259)    | (1,407)                            | (8,630)    |
| Net income (loss).....   | \$ 124                  | \$ (3,385) | \$ (2,341) | \$ 1,273   | \$ 4,756   | \$ 2,101                           | \$ 2,452   |
| PRO FORMA DATA(3):   |                         |            |            |            |            |                                    |            |
| Net income .....   |                         |            |            |            | \$ 3,750   |                                    | \$ 6,967   |
| Net income per share.....  |                         |            |            |            | \$         |                                    | \$         |
| Weighted average number of common and common equivalent shares outstanding(4)..... |                         |            |            |            |            |                                    |            |
| SELECTED OPERATING DATA:   |                         |            |            |            |            |                                    |            |
| Active customers(5)....  | 246,000                 | 258,000    | 295,000    | 353,000    | 424,000    | 401,000                            | 492,000    |
| Catalogs distributed...  | 6,000,000               | 10,000,000 | 16,900,000 | 16,800,000 | 18,600,000 | 11,200,000                         | 24,000,000 |
| Orders entered(6).....   | 661,000                 | 695,000    | 803,000    | 854,000    | 910,000    | 628,000                            | 891,000    |
| Average order size.....  | \$ 248                  | \$ 264     | \$ 282     | \$ 346     | \$ 453     | \$ 445                             | \$ 512     |
| DECEMBER 31,   |                         |            |            |            |            |                                    |            |
|  | 1992                    | 1993       | 1994       | 1995       | 1996       | SEPTEMBER 30,<br>1997              |            |
| BALANCE SHEET DATA:  |                         |            |            |            |            |                                    |            |
| Working capital.....   | \$ 10,790               | \$ 7,383   | \$ 2,770   | \$ 10,994  | \$ 14,622  | \$ 16,477                          |            |
| Total assets.....  | 33,404                  | 38,313     | 52,911     | 48,615     | 75,238     | 95,549                             |            |
| Short-term debt.....   | 3,367                   | 6,905      | 6,106      | 4,933      | 13,057     | 9,380                              |            |



|   |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|
| Long-term debt (less current maturities)... | --     | --     | --     | 5,000  | 4,250  | 3,500  |
| Total stockholders' equity.....             | 17,088 | 13,702 | 11,687 | 13,057 | 18,043 | 21,280 |

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- (1) For all periods presented, the Company has been an S Corporation and accordingly has not been subject to federal income taxes.
  - (2) Represents amounts accrued or distributed in excess of aggregate annual base salaries approved by the Board of Directors and primarily represent Company-related federal income tax obligations payable by the stockholders.
  - (3) The pro forma adjustments give effect to (i) the elimination of additional stockholder/officer compensation expense of \$1,139 and \$8,540 for the year ended December 31, 1996 and the nine months ended September 30, 1997, respectively, representing amounts in excess of aggregate annual base salaries of \$600 to be in effect as of the closing date of the Offering and (ii) the Reorganization, including the provision for income taxes at an assumed rate of 39% based upon pro forma income of the Company as if it had not elected to be treated as an S Corporation. Increases in taxes amounted to \$2,145 and \$4,025 for the year ended December 31, 1996 and the nine months ended September 30, 1997, respectively.
  - (4) The pro forma weighted average number of common and common equivalent shares outstanding assumes that (i) all shares of stock issuable upon exercise of all stock options granted in 1997 were outstanding and (ii) a number of shares determined by dividing (x) the S Corporation Dividend (which if made at September 30, 1997 would have approximated \$26,000) by (y) the mid-point of the range set forth on the cover page of this Prospectus, were outstanding.
  - (5) All customers included in the Company's mailing list who have made a purchase within the last twelve-month period.
  - (6) Does not reflect cancellations or returns.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's financial statements and unaudited pro forma financial statements included elsewhere herein.

GENERAL

The Company was founded in 1982 as a mail order business offering a broad range of software and accessories for IBM and IBM-compatible personal computers. The founders' goal was to provide consumers with superior service and high quality branded products at competitive prices. The Company initially sought customers through advertising in magazines and the use of inbound toll free telemarketing. Currently, the Company seeks to generate sales through (i) outbound telemarketing by account managers focused on the business, education and government markets and (ii) inbound calls from customers responding to the Company's catalogs and other advertising. The Company also advertises in selected computer industry publications and in 1996 commenced selling products through its Internet Web site.

The Company offers both PC compatible products and Mac compatible products. Reliance on Mac product sales has decreased over the last two years, from 26.7% of net sales in 1995 to 22.6% of net sales for the nine months ended September 30, 1997. In November 1997, Apple announced that it will sell built-to-order computers directly to customers over the Internet. While Apple also indicated that it is not abandoning traditional retail and direct marketing outlets, the Company cannot predict whether direct sales by Apple will affect the future supply of Macs to the Company. Although net sales attributable to Mac products increased in the nine months ended September 30, 1997, as compared to the comparable period in 1996, the Company believes that such sales will continue to decrease as a percentage of net sales and may decline in dollar volume in 1998 and future years.

All of the Company's product categories experienced strong growth in the

year ended December 31, 1996 and the nine months ended September 30, 1997, with sales of computer systems representing the fastest growing category. Sales of computer systems result in a relatively high dollar sales order, as reflected in the increase in the Company's average order size from \$346 in the year ended December 31, 1995 to \$512 for the nine months ended September 30, 1997. Computer system sales generally provide the largest gross profit dollar contribution per order of all of the Company's products, although they generally yield the lowest gross margin percentage. Partially as a result of higher system sales, the Company's gross margin has declined over the last two years while the operating income margin has increased due to the leveraging of selling, general and administrative expenses over a larger sales base.

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

The direct marketing of personal computers and related products is highly competitive. In addition to other direct marketers and manufacturers who sell direct, such as Dell Computer Corporation and Gateway 2000, Inc., manufacturers of PCs sold by the Company, such as Compaq and IBM, have also announced varying plans to sell PCs directly to end users. Separately, both Compaq and IBM have announced plans to increase their reliance on reseller arrangements with direct marketers such as the Company as part of their own marketing programs designed to compete more effectively with Dell and Gateway. The Company currently believes that direct sales by Compaq and IBM will not have a significant adverse effect upon the Company's net sales.

18

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

In connection with the Offering, the Company expects to report the following non-recurring, non-cash items in the quarter ending March 31, 1998: (i) a \$665,000 charge to income from operations resulting from the acceleration of the amortization of certain stock option compensation expense from seven years to four years and (ii) an estimated \$2.5 million tax benefit related to the establishment of deferred tax assets for future tax deductions resulting from the S Corporation Termination.

In connection with the planned relocation of its headquarters facility in the summer of 1998, the Company will likely incur certain one-time moving and other costs, not expected to exceed \$500,000, which would be charged to operating results in the periods incurred.

#### RESULTS OF OPERATIONS

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

| YEAR ENDED DECEMBER 31, |      |      | NINE MONTHS ENDED |      |
|-------------------------|------|------|-------------------|------|
| -----                   |      |      | SEPTEMBER 30,     |      |
| -----                   |      |      | -----             |      |
| 1994                    | 1995 | 1996 | 1996              | 1997 |

|  | -----    | -----    | -----    | -----    | -----    |
|--|----------|----------|----------|----------|----------|
| Net sales (in millions).....                         | \$ 196.7 | \$ 252.2 | \$ 333.3 | \$ 225.1 | \$ 383.5 |
|  | =====    | =====    | =====    | =====    | =====    |
| Net sales.....                                       | 100.0%   | 100.0%   | 100.0%   | 100.0%   | 100.0%   |
| Gross profit.....                                    | 15.6     | 16.2     | 15.4     | 15.7     | 13.9     |
| Selling, general and<br>administrative expenses..... | 16.6     | 15.2     | 13.1     | 13.8     | 10.7     |
| Income (loss) from operations..                      | (1.0)    | 1.0      | 2.2      | 2.0      | 3.3      |
| Interest expense.....                                | (0.3)    | (0.5)    | (0.4)    | (0.4)    | (0.2)    |
| Income taxes.....                                    | 0.1      | (0.0)    | (0.1)    | (0.1)    | (0.1)    |
| Additional stockholder/officer<br>compensation.....  | 0.0      | 0.0      | (0.4)    | (0.6)    | (2.2)    |
| Net income (loss).....                               | (1.2)    | 0.5      | 1.4      | 0.9      | 0.6      |
| Pro forma net income.....                            |          |          | 1.1      |          | 1.8      |

The following table sets forth for the periods indicated the Company's percentage of net sales (in dollars) of computer systems/memory, peripherals, software and networking and communications products.

| PRODUCT CATEGORIES               | YEAR ENDED DECEMBER 31, |        |        | NINE MONTHS ENDED     |        |
|----------------------------------|-------------------------|--------|--------|-----------------------|--------|
|                                  | 1994                    | 1995   | 1996   | SEPTEMBER 30,<br>1996 | 1997   |
| Computer Systems/Memory.....     | 11.1%                   | 25.4%  | 34.8%  | 33.1%                 | 41.1%  |
| Peripherals.....                 | 44.8                    | 39.4   | 38.0   | 38.4                  | 34.8   |
| Software.....                    | 30.3                    | 23.4   | 17.6   | 18.0                  | 16.6   |
| Networking and Communications... | 13.8                    | 11.8   | 9.6    | 10.5                  | 7.5    |
| Total.....                       | 100.0%                  | 100.0% | 100.0% | 100.0%                | 100.0% |

NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1996

Net sales increased \$158.4 million, or 70.4%, to \$383.5 million for the nine months ended September 30, 1997 from \$225.1 million for the nine months ended September 30, 1996. Growth in net sales, which included a 15.1% increase in average order size, was primarily attributable to: (i) improvements in merchandising and product mix, especially a greater emphasis on the stocking and sale of computer systems; (ii) continued

19

expansion and increased productivity of the Company's outbound telemarketing group; (iii) an increase in the number of catalog mailings; and (iv) improved inbound sales conversion ratios. System/memory sales increased to 41.1% of net sales for the nine months ended September 30, 1997 from 33.1% for the comparable period in 1996. Outbound sales increased \$92.1 million, or 112.2%, to \$174.2 million for the nine months ended September 30, 1997 from \$82.1 million for the nine months ended September 30, 1996. The number of catalogs mailed increased by 114.3%, from 11.2 million catalogs for the nine months ended September 30, 1996 to 24.0 million catalogs for the comparable period in 1997.

Gross profit increased \$18.1 million, or 50.9%, to \$53.5 million for the nine months ended September 30, 1997 from \$35.4 million for the nine months ended September 30, 1996. The increase in gross profit dollars was primarily attributable to the increase in sales described above. Gross profit margin decreased from 15.7% for the nine months ended September 30, 1996 to 13.9% for the comparable period in 1997 due primarily to a higher rate of growth in sales of lower margin computer systems, increased price competition and decreases in average unit selling prices. However, the Company generated higher gross profit dollars per order, enabling it to leverage its operating expenses, as described below.

Selling, general and administrative expenses (excluding additional

stockholder/officer compensation) increased \$10.0 million, or 32.1%, to \$41.0 million for the nine months ended September 30, 1997 from \$31.0 million for the nine months ended September 30, 1996, but decreased as a percentage of sales to 10.7% for the nine months ended September 30, 1997 from 13.8% for the nine months ended September 30, 1996. The increase in expenses was primarily attributable to increases in volume-sensitive costs such as sales personnel and credit card fees. The decrease as a percentage of net sales was primarily attributable to improved expense control and the leveraging of selling, general and administrative expenses over a larger sales base.

Prior to the closing of the Offering, selling, general and administrative expenses excluded additional stockholder/officer compensation paid to the Company's two stockholders who also serve as officers and directors, representing amounts accrued or distributed in excess of aggregate annual base salaries (\$360,000 base salaries for each of the nine-month periods) approved by the Board of Directors of the Company and primarily represent Company-related federal income tax obligations payable by the stockholders. Effective upon the closing of the Offering, these stockholder/officers will be paid annual base salaries aggregating \$600,000. Selling, general and administrative expenses on a pro forma basis were \$41.1 million (or 10.7% of net sales) for the nine months ended September 30, 1997, and \$31.1 million for the nine months ended September 30, 1996 as adjusted to give effect to \$450,000 of aggregate base salaries payable to the Company's two stockholder/officers.

Income from operations increased by \$8.1 million, or 182.2%, to \$12.5 million for the nine months ended September 30, 1997 from \$4.4 million for the nine months ended September 30, 1996. Income from operations as a percentage of net sales increased from 2.0% to 3.3% for the reasons discussed above.

Additional stockholder/officer compensation represents amounts accrued or distributed to stockholders for Company-related federal income tax obligations payable by the stockholders. Additional stockholder/officer compensation increased \$7.2 million, or 513.4%, to \$8.6 million for the nine months ended September 30, 1997 from \$1.4 million for the nine months ended September 30, 1996. This increase is attributable to increases in net income.

Interest expense for the nine months ended September 30, 1997 increased by \$130,000, or 16.2%, to \$933,000 from \$803,000 for the nine months ended September 30, 1996, primarily due to higher average outstanding borrowings under the Company's line of credit.

Net income increased \$351,000, or 16.7%, to \$2.5 million for the nine months ended September 30, 1997 from \$2.1 million for the comparable period in 1996 principally as a result of the increase in income from operations.

Pro forma net income is determined by (i) eliminating stockholder/officer compensation in excess of the aggregate base salaries described above under "selling, general and administrative expenses" and (ii) adding a

20

provision for federal income taxes that would be payable by the Company if taxed under Subchapter C of the Code. Net income on a pro forma basis as described above would have been \$7.0 million for the nine months ended September 30, 1997. The difference in pro forma net income compared to historical net income represents the elimination of \$8.5 million in additional stockholder/officer compensation offset by a \$4.0 million higher provision for federal income taxes.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

Net sales increased \$81.1 million, or 32.2%, to \$333.3 million in 1996 from \$252.2 million in 1995. Growth in net sales, which included a 30.9% increase in average order size, was primarily attributable to improvements in merchandising and product mix, especially growth in computer systems, and a significant expansion of the Company's outbound telemarketing group from 40 to 100 account managers, together with an increase in outbound sales per account manager for those account managers with more than 12 months of service. Outbound sales increased \$72.2 million, or 132.6%, to \$126.7 million in 1996 from \$54.5 million in 1995.

Gross profit increased \$10.3 million, or 25.1%, to \$51.2 million in 1996 from \$40.9 million in 1995. Gross profit margin decreased from 16.2% in 1995 to 15.4% in 1996 due to more competitive pricing of the Company's products and

significant growth in sales of computer systems, which carry lower gross margins. These decreases were partially offset by the Company's ability, as a result of its increased volume and financial position, to take advantage of vendor discounts, rebates and bulk purchasing opportunities.

Selling, general and administrative expenses (excluding additional stockholder/officer compensation) increased \$5.4 million, or 14.0%, to \$43.7 million in 1996 from \$38.4 million in 1995, but decreased as a percentage of sales to 13.1% in 1996 from 15.2% in 1995. The increase in expense was attributable to an increase in volume-sensitive costs such as sales personnel and credit card fees. The decrease as a percentage of net sales was primarily attributable to management attention to expense control and the leveraging of selling, general and administrative expenses over a larger sales base.

Selling, general and administrative expenses on a pro forma basis were \$43.9 million (or 13.2% of net sales) in 1996 as adjusted to give effect to \$600,000 of aggregate annual base salaries payable to the Company's two stockholder/officers.

Income from operations increased by \$5.0 million, or 193.4%, to \$7.5 million in 1996 from \$2.5 million in 1995. Income from operations as a percentage of net sales increased from 1.0% to 2.2% for the reasons discussed above.

Additional stockholder/officer compensation increased \$1.3 million in 1996 from \$0 in 1995. This increase is primarily attributable to distributions to stockholders representing Company-related federal income tax obligations payable by stockholders.

Interest expense remained unchanged at \$1.3 million in 1996 and 1995. Lower interest rates and average short-term borrowings in 1996 were offset by the increased interest expense associated with the \$5.0 million term loan obtained in late 1995.

Net income increased \$3.5 million, or 273.6%, to \$4.8 million in 1996 from \$1.3 million in 1995, principally as a result of the increase in income from operations.

Pro forma net income as described above would have been \$3.8 million. The difference in pro forma net income compared to historical net income represents the elimination of \$1.1 million in additional stockholder/officer compensation offset by a \$2.1 million higher provision for federal income taxes.

#### YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

Net sales increased \$55.5 million, or 28.3%, to \$252.2 million in 1995 from \$196.7 million in 1994. Growth in net sales, which included a 22.7% increase in average order size, was primarily attributable to expanded marketing efforts and product lines, particularly in the development of computer system/memory sales, and the

21

development and growth of the Company's outbound telemarketing group. Outbound sales increased \$40.8 million, or 298.9%, to \$54.4 million in 1995 from \$13.6 million in 1994.

Gross profit increased \$10.2 million, or 33.3%, to \$40.9 million in 1995 from \$30.7 million in 1994. Gross margin increased from 15.6% in 1994 to 16.2% in 1995 primarily as a result of a change in the Company's freight policy which passed a larger percentage of the out-of-pocket freight charges to customers.

Selling, general and administrative expenses increased \$5.7 million, or 17.5%, to \$38.4 million in 1995 from \$32.7 million in 1994, but decreased as a percent of sales to 15.2% in 1995 from 16.6% in 1994. The increase in expenses was attributable primarily to increased volume-sensitive personnel and other costs consistent with the growth in the outbound sales group. Selling, general and administrative expenses in 1995 also included approximately \$800,000 in non-recurring charges, including \$473,000 of costs related to an uncompleted equity financing and \$275,000 of costs associated with the termination of certain employees. The decline as a percentage of sales was attributable to increased economies of scale through a significant reduction in the number of inbound sales representatives coupled with an improvement in productivity, the

leveraging of costs over a higher sales base and the reduction of more expensive advertising in computer publications.

Income (loss) from operations increased by \$4.5 million to income of \$2.5 million in 1995 from a loss of \$2.0 million in 1994. Income (loss) from operations as a percentage of net sales increased from a loss of 1.0% to income of 1.0% for the reasons discussed above.

Interest expense in 1995 increased \$702,000, or 118.2%, to \$1.3 million from \$594,000 in 1994, primarily as a result of increased borrowings under the Company's line of credit.

Net income (loss) increased \$3.6 million, to net income of \$1.3 million in 1995 from a net loss of \$2.3 million in 1994 principally as a result of the increase in income from operations described above.

#### SELECTED QUARTERLY FINANCIAL RESULTS

The following table sets forth certain unaudited quarterly data of the Company for each of the quarters since January 1, 1995. This information has been prepared on the same basis as the audited Financial Statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the selected quarterly information when read in conjunction with the audited Financial Statements and the Notes thereto included elsewhere in this Prospectus. The quarterly operating results are not necessarily indicative of future results of operations. See "Risk Factors--Historical Net Losses; Variability of Quarterly Results."

|                                       | QUARTERS ENDED    |                  |                   |                  |
|---------------------------------------|-------------------|------------------|-------------------|------------------|
|                                       | MARCH 31,<br>1995 | JUNE 30,<br>1995 | SEPT. 30,<br>1995 | DEC. 31,<br>1995 |
|                                       | (IN THOUSANDS)    |                  |                   |                  |
| Net sales.....                        | \$ 62,856         | \$ 60,434        | \$ 59,802         | \$ 69,125        |
| Gross profit.....                     | 10,247            | 9,736            | 9,737             | 11,198           |
| Income (loss) from operations(1)..... | (112)             | 130              | 281               | 2,246            |

|                                | QUARTERS ENDED    |                  |                   |                  |
|--------------------------------|-------------------|------------------|-------------------|------------------|
|                                | MARCH 31,<br>1996 | JUNE 30,<br>1996 | SEPT. 30,<br>1996 | DEC. 31,<br>1996 |
|                                | (IN THOUSANDS)    |                  |                   |                  |
| Net sales.....                 | \$ 70,108         | \$ 72,014        | \$ 82,952         | \$108,248        |
| Gross profit.....              | 10,995            | 11,381           | 13,054            | 15,775           |
| Income from operations(1)..... | 1,108             | 1,341            | 1,976             | 3,041            |

|                                 | QUARTERS ENDED    |                  |                   |
|---------------------------------|-------------------|------------------|-------------------|
|                                 | MARCH 31,<br>1997 | JUNE 30,<br>1997 | SEPT. 30,<br>1997 |
|                                 | (IN THOUSANDS)    |                  |                   |
| Net sales.....                  | \$122,823         | \$121,500        | \$139,137         |
| Gross profit.....               | 17,379            | 16,777           | 19,296            |
| Income from operations(1) ..... | 3,742             | 3,986            | 4,759             |

(1) Income from operations excludes stockholder/officer compensation in excess of aggregate base salaries of \$120,000 in each quarter (\$80,000 in the quarter ended December 31, 1995).

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations and capital

expenditures through cash flow from operations and bank borrowings. The Company believes that funds generated from operations, together with the net proceeds from the Offering and available credit under its bank line of credit, will be sufficient to finance its working capital and capital expenditure requirements at least through 1998. The Company plans to use the net proceeds of the Offering to repay bank indebtedness, pay the S Corporation Dividend and for working capital. See "Use of Proceeds." The Company's ability to continue funding its planned growth is dependent upon its ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required.

At September 30, 1997, the Company had cash of \$723,000 and working capital of \$16.5 million. At December 31, 1996, the Company had working capital of \$14.6 million.

Net cash provided by operating activities was \$8.4 million for the nine months ended September 30, 1997. The Company's net cash used in operating activities was \$4.5 million for the year ended December 31, 1996 as compared to \$2.8 million used in operating activities for the year ended December 31, 1995. Net cash provided by operating activities was \$5.8 million for 1994. The primary factors historically affecting cash flows from operations are the Company's net income and changes in the levels of accounts receivable, inventories and accounts payable. Historically, inventories and accounts payable have increased as a result of the sales growth of the Company. Accounts receivable have increased primarily due to an increase in open account purchases by commercial customers resulting from the Company's continued efforts to increase its sales to such customers.

Capital expenditures were \$3.4 million in the nine months ended September 30, 1997 and in the year ended December 31, 1996. The Company expects capital expenditures, primarily for the purchase of computer hardware and software and other fixed assets, to be approximately \$1.6 million and \$4.0 million, for the quarter ending December 31, 1997 and the year ending December 31, 1998, respectively.

As of September 30, 1997, the Company had a credit agreement with a bank providing for short-term borrowings equal to the lesser of \$30 million or an amount determined by a formula based on accounts receivable and inventory balances, and a term loan for \$5 million, due in quarterly installments of \$250,000 through March 31, 2002. Short-term borrowings which totalled \$8.1 million at September 30, 1997, are collateralized by the Company's accounts receivable and inventories (other than inventories pledged to secure trade credit arrangements) and bear interest at the bank's prime rate plus 0.5% (8.5% at September 30, 1997) or LIBOR plus 2.5% at the Company's option. The term loan is collateralized by all other assets of the Company and bears interest at the prime rate plus 1.0% (9.0% at September 30, 1997). The credit agreement includes various customary financial and operating covenants, including restrictions on the payment of dividends, except for dividends to stockholders in respect of income taxes, none of which the Company believes significantly restricts the Company's operations. At September 30, 1997, the Company had \$53.7 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence and will be financed by cash flows from operations or short-term borrowings under the line of credit.

As of November 19, 1997, the Company and its banks amended the agreement to increase the maximum level of borrowings from \$30.0 million to \$45.0 million and to reduce the interest rate on borrowings under both loans to the prime rate or LIBOR plus 2.0% at the Company's option. At December 31, 1997 short-term borrowings under the line of credit totalled \$28.3 million. The Company's borrowings at year end are typically higher as a result of increased fourth quarter sales levels.

#### INFLATION

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

The Company uses software and related technologies throughout its business that will be affected by the Year 2000 problem, which is common to most corporations, and concerns the inability of information systems, primarily computer software programs, to properly recognize and process date sensitive information as the year 2000 approaches. The Company's order management and fulfillment software system is not currently Year 2000 compliant. However, the Company plans to replace this system in 1998 with new software that is better suited to the Company's expected scale of operations and is designed to be Year 2000 compliant. See "Business--Management Information Systems." The Company currently believes it will be able to modify or replace any other affected systems in time to minimize any detrimental effects on operations. While it is not possible, at present, to give an accurate estimate of the cost of this work, the Company expects that such costs will not be material to the Company's results of operations. System maintenance or software modification costs will be expensed as incurred, while the costs of new software (such as the new order management and fulfillment software) will be capitalized and amortized over the software's expected useful life.

#### RECENT PRONOUNCEMENTS OF THE FINANCIAL ACCOUNTING STANDARDS BOARD

Recent pronouncements of the Financial Accounting Standards Board ("FASB") which are not required to be adopted at September 30, 1997, include the following Statements of Financial Accounting Standards ("SFAS"):

SFAS No. 128, "Earnings Per Share," which will be required to be adopted by the Company for the fiscal year ending December 31, 1997, specifies the computation, presentation, and disclosure requirements for earnings per share for entities with publicly-held common stock. This new accounting standard will require presentation of basic earnings per share and diluted earnings per share. The effect of adopting this standard would be to report pro forma basic net income per share of \$0.38 and \$0.71, and pro forma diluted net income per share of \$0.36 and \$0.68, for the year ended December 31, 1996 and the nine months ended September 30, 1997, respectively.

SFAS No. 129, "Disclosure of Information about Capital Structure," which will be effective for the Company for the year ending December 31, 1997, consolidates existing disclosure requirements. This new standard contains no change in disclosure requirements for the Company.

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income (all changes in equity during a period except those resulting from investments by and distributions to owners) and its components in the financial statements. This new standard, which will be effective for the Company for the year ending December 31, 1998, is not currently anticipated to have a significant impact on the Company's financial statements based on the current financial structure and operations of the Company.

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which will be effective for the Company for the year ending December 31, 1998, establishes standards for reporting information about operating segments in the annual financial statements, selected information about operating segments in interim financial reports and disclosures about products and services, geographic areas and major customers. This new standard may require the Company to report financial information on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments, which may result in more detailed information in the notes to the Company's financial statements than is currently required and provided. The Company has not yet determined the effects, if any, of implementing SFAS No. 131 on its reporting of financial information.

24

#### BUSINESS

##### GENERAL

PC Connection is a leading direct marketer of brand-name personal computers and related peripherals, software, accessories and networking products. The Company's primary target customers are SMORGS comprised of 20 to 1,000 employees. PC Connection sells its products through a combination of targeted direct mail catalogs, outbound telemarketing, its Internet Web site and advertisements on the Internet and in selected computer magazines. The Company offers a broad selection of approximately 15,000 products targeted for



business use at competitive prices, including products from Compaq, Hewlett-Packard Company, Toshiba Corporation, IBM, Microsoft Corporation ("Microsoft"), Sony Corporation, Hitachi Ltd. and Apple. The Company's most frequently ordered products are carried in inventory and are typically shipped to customers the same day that the order is received.

The Company has experienced rapid growth in sales, profitability, number of orders and average order size as a result of: (i) a substantial increase in the number and assortment of products carried by the Company; (ii) increases in outbound telemarketing personnel and improvements in productivity; (iii) increases in catalog circulation; and (iv) improvements in inbound telemarketing productivity. The Company recorded net sales of \$333.3 million and income from operations of \$7.5 million in the year ended December 31, 1996, representing increases of 32.2% and 193.4%, respectively, over the year ended December 31, 1995. In the nine months ended September 30, 1997, the Company recorded net sales of \$383.5 million and income from operations of \$12.5 million, representing increases of 70.4% and 182.2%, respectively, over the comparable period in 1996. Net sales of PCs and compatible products were approximately 77% of net sales for the nine months ended September 30, 1997.

Since its founding in 1982, the Company has focused on serving customer needs by providing innovative, reliable and timely customer service and technical support, and offering an extensive assortment of branded products, through knowledgeable and well-trained sales and support teams. The effectiveness of this strategy is reflected in the recognition accorded the Company, including the Company's receipt of the PC World "World Class Award for Best Mail-Order Company" in 1997, as voted by its readers, for the seventh time in the past eight years, and receipt of the highest ranking of only two direct resellers included in the first-ever ranking of the "100 Most Influential Companies in the Computer Industry" by PC Magazine in July 1997.

The Company believes that its consistent customer focus has resulted in the development of strong brand name recognition and a broad and loyal customer base. At September 30, 1997, the Company's mailing list consisted of approximately 2,000,000 customers and potential customers, of which approximately 500,000 had purchased products from the Company within the last twelve months. Approximately 65% of the Company's orders in each of the nine months ended September 30, 1997 and the year ended December 31, 1996 were placed by customers who had previously purchased products from the Company. The Company believes it has also developed strong relationships with vendors, resulting in favorable product allocations and marketing assistance.

Commencing in late 1995, the Company significantly increased its business-to-business marketing efforts targeting SMORGS, a rapidly growing sector of the personal computer market that the Company believes is particularly receptive to purchases from direct marketers. To serve this growing part of its business more effectively, the Company has increased the number of its outbound telemarketing account managers from 48 at December 31, 1995 to 156 at September 30, 1997, including 86 new account managers with less than 12 months of outbound telemarketing experience with the Company. Historically, outbound account managers become significantly more productive in their second year with the Company. In addition, in late 1995 the Company initiated programs to increase training of inbound telemarketing personnel and to provide incentive compensation based upon sales productivity.

The Company's two major catalogs are PC Connection(R), focused on PCs and compatible products, and MacConnection(R), focused on Macs and compatible products. With colorful illustrations, concise product descriptions, relevant technical information, along with customer service benefits and toll-free telephone numbers for ordering, the Company's catalogs are recognized as a leading source for personal computer hardware,

software and other related products. The Company distributed approximately 24 million catalogs during the nine months ended September 30, 1997.

The Company also markets its products and services through its Internet Web site, [www.pcconnection.com](http://www.pcconnection.com), which provides customers and prospective customers with Company and product information and enables customers to place electronic orders for all of the Company's products. The Company believes that as the Internet becomes a more important commercial medium, it will be well positioned to capitalize on growth through this emerging channel.

## INDUSTRY BACKGROUND

According to industry data published by Merrin in May 1997, United States sales of personal computers and related products were \$77.8 billion in 1996 and are expected to be \$138.2 billion in 2000, representing a compound annual growth rate of 15.4%. The Company believes that the direct marketing channel will be among the fastest growing distribution channels for the domestic personal computer and related products industry. As a leading participant in the direct marketing channel, the Company believes it is well positioned to capitalize on the expected growth in the industry.

The Company believes that the sales of personal computers and related products have increased principally as a result of (i) technological advances leading to significant improvements in performance, functionality and ease of use; (ii) lower prices and improved price/performance made possible by technological advances and driven by intense competition among manufacturers, retailers and resellers; (iii) increased dependence upon PCs by businesses, educational institutions and governments; and (iv) the emergence of industry standards and component commonality. The Company believes that the higher projected growth for the direct marketing channel is primarily based on (i) increased user familiarity with PCs, coupled with the emergence of industry standards and component commonality, and the resultant increase in customer comfort with purchasing products without the need to "touch and feel" them, and (ii) broader product offerings, lower prices and greater purchasing convenience that direct marketers generally provide over traditional retail stores and local dealers.

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

The Company believes new entrants to the direct marketing channel must overcome a number of significant barriers to entry, including the time and resources required to build a customer base of meaningful size, quality and responsiveness for cost-effective circulation; costs of developing the information and operating infrastructure required by direct marketers; the advantages enjoyed by larger and more established competitors in terms of purchasing and operating efficiencies; the difficulty of building relationships with manufacturers to achieve favorable product allocations, attractive pricing terms and cooperative advertising funds; and the difficulty of identifying and recruiting management personnel with significant direct marketing experience in the industry.

26

## BUSINESS STRATEGIES

The Company's objective is to become the leading supplier of personal computers and related products and services to its customers. The key elements of the Company's business strategies include:

- . AWARD-WINNING CUSTOMER SERVICE BEFORE, DURING AND AFTER THE SALE. The Company believes that it has earned a reputation for providing superior customer service by consistently focusing on customer needs and service innovation. The Company has won PC World's "World Class Award for Best Mail Order Company" in seven out of the last eight years. The Company

delivers value to its customers through high quality service and technical support provided by knowledgeable, well-trained personnel; efficient and innovative delivery programs; in-house service capabilities; competitive prices; and reasonable return policies.

- . STRONG BRAND NAME AND CUSTOMER FRANCHISE. Since its founding in 1982, the Company has built a strong brand name and customer franchise. In July 1997, the Company was one of only two direct resellers included in the "100 Most Influential Companies in the Computer Industry" by PC Magazine. Its mailing list includes approximately 2,000,000 names, of which approximately 500,000 have purchased products from the Company during the last 12 months.
- . BROAD PRODUCT SELECTION AT COMPETITIVE PRICES. The Company offers its customers a wide assortment of personal computers and related products at competitive price points. The Company's merchandising programs feature products that provide customers with aggressive price/performance and the convenience of one-stop shopping for their personal computer and related needs.
- . LONG-STANDING VENDOR RELATIONSHIPS. The Company has a history of strong relationships with vendors, being among the first direct marketers qualified by manufacturers to market systems to end users. The Company provides its vendors with information concerning customer preferences and an efficient channel for the advertising and distribution of their products.

#### GROWTH STRATEGIES

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

- . INCREASE OUTBOUND TELEMARKETING. The Company plans to increase significantly the number of its corporate outbound account managers and assign them to a higher percentage of the Company's customers. Outbound account managers focus exclusively on serving specifically assigned customers and seek to develop a close relationship with those customers by identifying and responding to their needs for personal computers and related products.
- . EXPAND PRODUCT OFFERINGS. The Company continually evaluates personal computers and related products focused on business users, adding new products as they become available or in response to customer demand. The Company is also expanding the breadth of offered products to include items such as network servers, telecopiers and telephone equipment. It works closely with vendors to identify and source first-to-market product offerings at aggressive price points, and believes that expansion of its corporate outbound marketing program will enhance its access to such product offerings.
- . TARGET CUSTOMER SEGMENTS. Through targeted mailings, the Company seeks to expand the number of its active customers and generate additional sales from its existing customers on a cost-effective basis. The Company has developed specialty catalogs, as well as standard catalogs with special cover pages, featuring product offerings designed to address the needs of specific customer segments. The Company plans to further focus its product mix and catalogs to better service the needs of its existing and prospective business customers, including new product inserts targeted to purchasers of graphics, server and networking products.

27

- . DEVELOP ELECTRONIC COMMERCE CHANNEL. The Company's Internet Web-based catalog provides detailed product descriptions, product search capabilities and on-line order processing. The Company believes that an increasing number of customers and potential new customers will elect to shop electronically in the future and therefore it plans additional investments to further improve the on-line sales capabilities, customer service and product information and support available on its Internet Web site.

#### SERVICE AND SUPPORT

Since its founding in 1982, the Company's primary objective has been to provide products that meet the demands and needs of customers and to supplement those products with up-to-date product information and excellent customer service and support. The Company believes that offering its customers superior value, through a combination of product knowledge, consistent and reliable service and leading products at competitive prices, differentiates it from other direct marketers and has become the foundation for developing a broad and loyal customer base. The Company has introduced programs such as Toll-Free Technical Support in 1982, the Everything Overnight(R) delivery program in 1988, Money Back Guarantees in 1989, One-Minute Mail Order(R) in 1991 and its On-line Superstore in 1997.

The Company invests heavily in training programs for its service and support personnel, with an emphasis on putting customer needs and service first. Customer service representatives are available 24 hours a day, seven days a week to handle orders, product information and general inquiries (including the most frequently asked technical support questions).

The effectiveness of the Company's strategy is reflected in the recognition accorded the Company, including the Company's receipt of PC World's "World Class Award for Best Mail Order Company" in 1997, as voted by its readers, for seven of the last eight years and receipt of the highest ranking of only two direct resellers included in the first-ever ranking of the "100 Most Influential Companies in the Computer Industry" by PC Magazine in July 1997.

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

Innovative Delivery Programs. Using the Company's customized information system, the Company, upon receipt of customer orders, sends them to its distribution center for processing immediately after they are credit approved. Through its Everything Overnight(R) service, the Company guarantees that all orders accepted up until 2:45 a.m. (until midnight on most custom-configured systems) will be shipped for overnight delivery via Airborne Express.

#### MARKETING AND SALES

The Company sells its products through the direct marketing channel, primarily to SMORGS. The Company's marketing objectives are to be the primary supplier of personal computers and related products to its existing customers and to expand its customer base. The Company employs multiple marketing approaches to reach existing and prospective customers, including outbound telemarketing, catalogs and inbound telesales, Web and print media advertising, and specialty marketing programs. All of its marketing approaches emphasize the Company's broad product offerings, fast delivery, customer support, competitive pricing and multiple payment options.

28

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

Outbound Telemarketing. The Company seeks to build loyal relationships with its potential high-volume customers by assigning them to individual account managers. The Company believes that customers respond favorably to a one-on-one relationship with personalized, well-trained account managers. Once established, these one-on-one relationships are maintained and enhanced through frequent telecommunications and targeted catalogs and other marketing materials designed to meet each customer's specific computing needs.

Account managers focus exclusively on their managed accounts and on outbound sales calls to prospective customers. The Company generally recruits account managers from its inbound telemarketing staff and from other sales organizations. All account managers must successfully complete a one-month

training program, which includes instruction in the Company's product offerings and order management systems, as well as selling skills and account management. Thereafter, new account managers are assigned to sales teams where they receive intensive coaching and supervision by experienced supervisors, and periodic refresher training from the sales training staff. Additional training and product education programs are provided continuously through vendor supported programs. The Company pays its account managers a base annual salary plus incentive compensation which is tied to sales volume and gross profit dollars produced. The Company imposes specific increases in sales targets for incentive pay. Account managers historically have significantly increased productivity after approximately 12 months of training and experience. At September 30, 1997, the Company employed 156 account managers, including 86 with less than 12 months of outbound telemarketing experience with the Company.

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

In addition, the Company mails specialty catalogs or customized versions of its catalogs to selected customers. The Company distributes specialty catalogs to educational customers and prospects on a periodic basis. The Company also distributes its monthly catalogs customized with special covers and inserts, offering a wider assortment of special offers on products in specific areas (such as graphics, server/netcom and mobile computing) or for specific customers (such as developers). These customized catalogs are distributed to targeted customers included in the Company's customer database using past identification or purchase history, as well as to outside mailing lists.

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

The Company employs inbound sales representatives to answer customer telephone calls generated by the Company's catalog, magazine and other advertising programs and to assist customers in purchasing decisions, process product orders and respond to customer inquiries on order status, product pricing and availability. In late 1995, the Company initiated programs to increase training of inbound telemarketing personnel and to provide incentive compensation based upon sales productivity. The Company employs a flexible staffing model which

allows it to maintain excellent customer service during periods of peak demand while maintaining an efficient cost structure. The Company regularly monitors calls for quality assurance purposes. It has been a pioneer in using caller identification for the instant retrieval of customer records. Employing proprietary information systems, sales representatives can quickly access customer records which detail purchase history and billing and shipping information, expediting the ordering process. In addition to receiving orders through the Company's toll-free numbers, orders are also received via fax, mail, and electronic mail.

Advertising. The Company advertises in selected personal computer and trade magazines, such as PC Magazine, PC World and Macworld. These advertisements provide product descriptions, manufacturers' specifications and pricing information, and emphasize the Company's service and support features. Additionally, the PC Connection(R) logo and telephone number are included in promotions by selected manufacturers. The Company also advertises its Internet Web site through independent content providers on commercial on-line services

such as Yahoo.

www.pcconnection.com. In November 1996, the Company launched an Internet Web site, including a complete product catalog. In July 1997, the Company began accepting electronic orders through its Internet Web site. Product descriptions and prices of all products are provided on-line, with full, updated information for over 6,200 items and on screen images available for over 1,100 items. The Company offers, and continuously updates, selected product offerings and other special buys. The Company believes that in the future its Internet Web site will be an important sales source and communication tool for improving customer service.

Specialty Marketing. The Company's specialty marketing activities include direct mail, other inbound and outbound telemarketing services, bulletin board services, "fax on demand" services, package inserts, fax broadcasts and electronic mail. The Company also markets call-answering and fulfillment services to certain of its product vendors such as Iomega Corporation.

Customers. The Company currently maintains an extensive database of customers and prospects aggregating approximately 2,000,000 names. During the twelve months ended September 30, 1997, the Company received orders from approximately 500,000 customers. Approximately 65% of the Company's orders in the nine months ended September 30, 1997 and in the year ended December 31, 1996 were placed by customers who had previously purchased products from the Company.

#### PRODUCTS AND MERCHANDISING

The Company continuously focuses on expanding the breadth of its product offerings. The Company currently offers approximately 15,000 personal computer products designed for business applications from over 1,000 manufacturers, including hardware and peripherals, accessories, networking products and software. The Company offers both PCs and Macs and related products. In the nine months ended September 30, 1997, sales of PCs and related products were approximately 77% of the Company's net sales. The Company selects the products that it sells based upon their technology and effectiveness, market demand, product features, quality, price, margins and warranties. As part of its merchandising strategy, the Company also offers new types of products related to PCs, such as digital cameras.

Computer systems/memory are the fastest growing product category, representing 41.1% of net sales in the nine months ended September 30, 1997, up from 25.4% and 34.8% of net sales in the years ended December 31, 1995 and 1996, respectively. The growth in system sales has been driven primarily by increased outbound sales efforts to business customers and the aggressive sourcing and merchandising of new computer systems lines and products.

30

The following table sets forth the Company's percentage of net sales (in dollars) of computer systems/memory, peripherals, software, and networking and communications products during the years ended December 31, 1995 and 1996 and nine months ended September 30, 1997.

| PRODUCT CATEGORIES                 | PERCENTAGE OF NET SALES |              |               |
|------------------------------------|-------------------------|--------------|---------------|
|                                    | YEAR                    | YEAR         | NINE MONTHS   |
|                                    | ENDED                   | ENDED        | ENDED         |
|                                    | DECEMBER 31,            | DECEMBER 31, | SEPTEMBER 30, |
|                                    | 1995                    | 1996         | 1997          |
| Computer Systems/Memory.....       | 25.4%                   | 34.8%        | 41.1%         |
| Peripherals.....                   | 39.4%                   | 38.0%        | 34.8%         |
| Software.....                      | 23.4%                   | 17.6%        | 16.6%         |
| Networking and Communications..... | 11.8%                   | 9.6%         | 7.5%          |

The Company offers a limited 30-day money back guarantee for most unopened products and selected opened products, although selected products are subject to restocking fees. Substantially all of the products marketed by the Company are warranted by the manufacturer. The Company generally accepts returns

directly from the customer and then either credits the customer's account or ships the customer a similar product from the Company's inventory.

#### PURCHASING AND VENDOR RELATIONS

For the nine months ended September 30, 1997, the Company purchased approximately 50% of its products directly from manufacturers and the balance from distributors and aggregators, all of which shipped products directly to the Company's distribution facility in Wilmington, Ohio. During the year ended December 31, 1996 and the nine months ended September 30, 1997, product purchases from Ingram Micro, the Company's largest vendor, accounted for approximately 28.4% and 29.5%, respectively, of the Company's total product purchases. No other vendor accounted for more than 10% of the Company's total product purchases. The Company believes that alternative sources for products obtained from Ingram Micro are available.

Many product suppliers reimburse the Company for advertisements or other cooperative marketing programs in the Company's catalogs or Company advertisements in personal computer magazines that feature a manufacturer's product. Reimbursements may be in the form of discounts, advertising allowances and/or rebates. The Company also receives reimbursements from certain vendors based upon the volume of purchases or sales of the vendors' products by the Company. Historically, the Company received price protection from its vendors on a majority of the products it sold. Protection takes the form of rebates or credits against future purchases. The Company may participate in the future in end-of-life-cycle and other special purchases which may not be eligible for price protection.

The Company believes that it has excellent relationships with vendors, pays vendors within stated terms and takes advantage of all appropriate discounts. The Company believes that because of its volume purchases it is able to obtain product pricing and terms that are competitive with those available to other major direct marketers. Although brand names and individual product offerings are important to the Company's business, the Company believes that competitive sources of supply are available in substantially all of the merchandise categories carried by the Company.

#### DISTRIBUTION

At its approximately 102,000 square foot distribution and fulfillment center in Wilmington, Ohio, the Company receives and ships inventory, configures computer systems and processes returned products. The Company also maintains a related 25,700 square foot warehouse for inventory in nearby Xenia, Ohio. Orders are transmitted electronically from the Company's New Hampshire sales facilities to its Wilmington distribution center after credit approval, where packing documentation is printed automatically and order fulfillment takes place. The Company guarantees that all orders accepted up until 2:45 a.m. (until midnight on custom-configured systems) will be shipped for overnight delivery via Airborne Express. It ships approximately 90% of its orders through Airborne Express. Upon request, orders may also be shipped by other common carriers.

31

The Company configures approximately half of the computer systems it sells. Configuration typically consists of the installation of memory, accessories and/or software.

While the Company believes that its existing distribution facilities in Wilmington and Xenia, Ohio will be sufficient to support the Company's anticipated needs through the next 12 months, it is evaluating additional and/or alternative facilities for distribution and inventory to support future growth.

#### MANAGEMENT INFORMATION SYSTEMS

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

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

The Company's success is dependent in large part on the accuracy and proper use of its information systems, including its telephone systems, to manage its inventory and accounts receivable collections, to purchase, sell and ship its products efficiently and on a timely basis, and to maintain cost-efficient operations. The Company expects to continually upgrade its information systems to more effectively manage its operations and customer database, including to be Year 2000 compliant. In that regard, it is in the process of converting to new software for its order management and fulfillment systems designed to be Year 2000 compliant, which is expected to be completed by the first half of 1998.

#### COMPETITION

The direct marketing and sale of personal computers and related products is highly competitive. PC Connection competes with other direct marketers of personal computers and related products, including CDW Computer Centers, Inc., Insight Enterprises, Inc. and Micro Warehouse, Inc. The Company also competes with certain product manufacturers that sell directly to customers, such as Dell Computer Corporation and Gateway 2000, Inc., and more recently Compaq, IBM and Apple; distributors that sell directly to certain customers, such as MicroAge, Inc. and Vanstar Corporation; various cost-plus aggregators, franchisers, and national computer retailers, such as CompUSA, Inc. and Computer City; and companies with an Internet Web site and commercial on-line networks. Additional competition may arise if other new methods of distribution, such as broadband electronic software distribution, emerge in the future.

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

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

#### INTELLECTUAL PROPERTY RIGHTS

The Company conducts its business under the marks PC Connection(R) and MacConnection(R) and their related logos. Other Company trademarks and service marks include Everything Overnight(R), One-Minute Mail Order(R), PC & Mac Connection(R), Systems Connection(R), The Connection(R), Raccoon Character(R), Service Connection(TM), Graphics Connection(TM), and Memory Connection(TM). The Company intends to use and protect these

32

and its other marks, as it deems necessary. The Company believes its trademarks and service marks have significant value and are an important factor in the marketing of its products. The Company does not maintain a traditional research and development group, but works closely with computer product manufacturers and other technology developers to stay abreast of the latest developments in computer technology, both with respect to the products it sells and the products it uses to conduct its business.

#### EMPLOYEES

As of September 30, 1997, the Company employed 824 persons, of whom 378 were engaged in sales related activities, 75 were engaged in providing customer service and support, 188 were engaged in purchasing and distribution related activities, 52 were engaged in the operation and development of management information systems, and 131 were engaged in administrative and accounting functions. The Company considers its employee relations to be good. The Company's employees are not represented by a labor union, and it has experienced no work stoppages since inception.



FACILITIES

The Company's principal facilities, all of which are leased, are as follows:

| Facility<br>-----               | Location<br>----- | Approx.<br>Sq. Ft.<br>----- | Expiration of Lease<br>----- |
|---------------------------------|-------------------|-----------------------------|------------------------------|
| Corporate Headquarters.....     | Milford, NH       | 84,000                      | July 1998(1)                 |
| Sales and Service Facility..... | Keene, NH         | 22,000                      | July 2008                    |
| Sales Facility.....             | Hudson, NH        | 8,300                       | August 1998(2)               |
| Conference Center.....          | Marlow, NH        | 15,800                      | May 2007                     |
| Distribution Center.....        | Wilmington, OH    | 102,000                     | December 2000                |
| Distribution Facility.....      | Xenia, OH         | 25,700                      | September 1998(3)            |

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- (1) The Company has entered into a fifteen year lease for a new corporate headquarters which the Company plans to occupy in the summer of 1998. See "Certain Transactions."
  - (2) The Company has the option to renew the lease for this facility annually for one-year periods through August 2002.
  - (3) The Company has the option to renew the lease for this facility annually for one-year periods through September 2000.

Several of these facilities are leased from affiliated entities. See "Certain Transactions."

While the Company believes that its existing facilities in Wilmington and Xenia, Ohio will be sufficient to support the Company's anticipated needs through the next 12 months, it is evaluating additional and/or alternative facilities for distribution and inventory to support future growth.

REGULATORY AND LEGAL MATTERS

The direct response business conducted by the Company is subject to the Mail or Telephone Order Merchandise Rule and related regulations promulgated by the Federal Trade Commission. While the Company believes it is in compliance with such regulations, no assurance can be given that new laws or regulations will not be enacted or adopted that might adversely affect the Company's operations. There are no material legal proceedings pending against the Company.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The executive officers and directors of the Company and their ages as of December 31, 1997 are as follows:

| NAME<br>- - - - -           | AGE<br>--- | POSITION<br>-----  |
|-----------------------------|------------|--|
| Patricia Gallup.....        | 43         | Chairman of the Board, President and Chief Executive Officer               |
| David Hall.....             | 48         | Vice Chairman of the Board   |
| Wayne L. Wilson.....        | 48         | Senior Vice President, Chief Operating Officer and Chief Financial Officer |
| Robert F. Wilkins.....      | 35         | Vice President of Merchandising and Product Management                     |
| R. Wayne Roland.....        | 49         | Vice President of Fulfillment Operations                                   |
| John L. Bomba, Jr. ....     | 44         | Vice President of Information Systems and Chief Information Officer        |
| David B. Beffa-Negrini..... | 44         | Director   |

Martin C. Murrer(1)..... 40 Director  
Peter J. Baxter(1)..... 46 Director

- -----  
(1) Member of Compensation Committee and Audit Committee.

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

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

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

Robert F. Wilkins has served as Vice President of Merchandising and Product Management of the Company since December 1995. From September 1994 to December 1995, Mr. Wilkins was a consultant to the Company and certain of its affiliates. From February 1990 to September 1994, Mr. Wilkins served as President of Mac's Place.

R. Wayne Roland has served as Vice President of Fulfillment Operations of the Company since March 1996. From June 1995 to March 1996, he was a consultant to the Company. From July 1990 to June 1995, Mr. Roland served as controller and then as Director of Strategic Projects for Brookstone, Inc.

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

34

David B. Beffa-Negrini has served on the Company's Board of Directors since September 1994 and as the Director of Merchandising of the Company since January 1992.

Martin C. Murrer has served on the Company's Board of Directors since April 1995. Since January 1997, Mr. Murrer has been a managing director of Donaldson, Lufkin & Jenrette Securities Corporation. From June 1995 to January 1997, Mr. Murrer was a Senior Vice President of Donaldson, Lufkin & Jenrette Securities Corporation. From June 1990 to June 1995, Mr. Murrer was a Vice President of Goldman, Sachs & Co.

Peter J. Baxter has served on the Company's Board of Directors since September 1997. Mr. Baxter has been the President, Chief Executive Officer and a director of CFX Corporation, a bank holding company, since January 1989.

There are no family relationships among any of the directors and executive officers of the Company. Officers serve at the discretion of the Board of Directors of the Company (the "Board").

#### COMMITTEES OF THE BOARD

The Board has established a Compensation Committee and an Audit Committee, each comprised of Messrs. Murrer and Baxter. The Compensation Committee makes recommendations concerning salaries and incentive compensation for employees of and consultants to the Company and administers the Company's incentive

plans. The Audit Committee reviews the results and scope of the audit and other services provided by the Company's independent public accountants.

COMPENSATION OF DIRECTORS

Non-employee members of the Board and Mr. Beffa-Negrini, an employee director of the Company, receive a \$15,000 annual retainer and fees of \$1,000 for each Board meeting attended and \$500 for each Board committee meeting attended on a day other than the day of the Board meeting, as well as reimbursement for all reasonable expenses incurred in attending Board and committee meetings. Mr. Murrer has waived payment of his director's fees and in lieu thereof the Company has established a grant program pursuant to which a donee selected by Mr. Murrer can purchase products having a value equal to the amount of the waived fees.

EXECUTIVE COMPENSATION

Summary Compensation. The following table sets forth compensation paid to the Chief Executive Officer and each of the four other most highly compensated individuals who served as executive officers on December 31, 1996 and who received over \$100,000 in compensation for services rendered to the Company in all capacities during the fiscal year ended December 31, 1996 (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

| NAME AND<br>PRINCIPAL POSITION  | 1996 ANNUAL COMPENSATION |            |                                   | LONG-TERM<br>COMPENSATION<br>AWARDS  | ALL OTHER<br>COMPENSATION (\$) |
|---|--------------------------|------------|-----------------------------------|--------------------------------------|--------------------------------|
|   | SALARY (\$)              | BONUS (\$) | OTHER ANNUAL<br>COMPENSATION (\$) | SECURITIES UNDERLYING<br>OPTIONS (#) |                                |
| Patricia Gallup .....<br>Chairman of the Board,<br>President and Chief<br>Executive Officer                 | \$240,000                | --         | \$629,500 (1)                     | --                                   | \$2,250 (3)<br>408 (4)         |
| David Hall.....<br>Vice Chairman of the<br>Board, Executive Vice<br>President and Treasurer                 | 240,000                  | --         | 629,500 (1)                       | --                                   | 2,250 (3)<br>696 (4)           |
| Wayne L. Wilson.....<br>Senior Vice President,<br>Chief Operating Officer<br>and Chief Financial<br>Officer | 230,000                  | 70,000 (2) | --                                | 50,000                               | 696 (4)                        |
| Robert F. Wilkins.....<br>Vice President of<br>Merchandising and<br>Product Management                      | 140,000                  | 60,385 (2) | --                                | 20,000                               | 216 (4)                        |
| R. Wayne Roland.....<br>Vice President of<br>Fulfillment Operations   | 104,167                  | 94,800 (2) | --                                | --                                   | 25,360 (5)<br>464 (4)          |

- (1) Represents amounts accrued or distributed for Company-related federal income tax obligations payable by the stockholders.
- (2) Includes amounts paid in 1997 to Named Executive Officer earned in 1996.
- (3) Represents the Company's 401(k) profit-sharing plan matching contribution.
- (4) Represents premiums paid by the Company on life insurance with policy amounts in excess of \$50,000 for the Named Executive Officer.
- (5) Represents consultant fees paid between January 1, 1996 and March 1, 1996.

Employment and Severance Agreements.

In January 1998, the Company entered into employment agreements with Patricia Gallup as Chairman of the Board, President and Chief Executive Officer, and with David Hall as Vice Chairman of the Board. Pursuant to these agreements, each of Ms. Gallup and Mr. Hall has agreed to perform the duties she or he performed prior to the execution of such agreements for an annual base salary of \$300,000 for the year ending December 31, 1998. These

agreements may be terminated by the Company or by the employee at any time.

In August 1995, the Company entered into an employment agreement with Wayne L. Wilson, pursuant to which he is currently serving as Senior Vice President, Chief Operating Officer and Chief Financial Officer, providing for an initial annual base salary of \$230,000. In addition, the agreement provided for (i) deferred incentive compensation up to \$70,000 a year; (ii) additional compensation up to \$12,500 in each of the first two fiscal quarters of his employment; and (iii) the grant of options to acquire 50,000 shares of Non-Voting Common Stock under the Company's 1993 Incentive and Non-Statutory Stock Option Plan. See "Stock Plans." Upon termination of his employment by the Company without cause, Mr. Wilson shall be entitled to severance payments totaling his annual base salary as of the date of the termination of his employment.

In December 1995, the Company entered into an employment agreement with Robert F. Wilkins, pursuant to which he is currently serving as Vice President of Merchandising and Product Management. The agreement provides for an annual base salary of \$140,000 and annual incentive compensation of up to \$60,000, based upon the achievement of certain performance goals. If Mr. Wilkins is terminated by the Company without cause, he is entitled to severance payments equal to one-half of his annual base salary as of the date of the termination of his employment.

In March 1997, the Company entered into a letter agreement with R. Wayne Roland, providing for a severance payment equal to one-half of his then applicable annual base salary if the Company terminates his employment for any reason other than for cause. Mr. Roland currently holds the position of Vice President of Fulfillment Operations.

Option Grants. The following table sets forth information concerning stock options granted in the year ended December 31, 1996 to the Named Executive Officers.

OPTION GRANTS IN FISCAL 1996

| NAME                   | INDIVIDUAL GRANTS   |   |                              |                        | POTENTIAL REALIZABLE<br>VALUE AT ASSUMED<br>ANNUAL RATES OF STOCK<br>PRICE APPRECIATION FOR<br>OPTION TERM (2) |         |          |
|------------------------|---|---|------------------------------|------------------------|--|---------|----------|
|                        | NUMBER OF<br>SECURITIES<br>UNDERLYING<br>OPTIONS<br>GRANTED (#) | % OF TOTAL<br>OPTIONS<br>GRANTED TO<br>EMPLOYEES<br>IN FISCAL<br>YEAR | EXERCISE<br>PRICE<br>(\$/SH) | EXPIRATION<br>DATE (1) | 0% (\$)  | 5% (\$) | 10% (\$) |
| Patricia Gallup.....   | --  | --  | --                           | --                     | --   | --      | --       |
| David Hall.....        | --  | --  | --                           | --                     | --   | --      | --       |
| Wayne L. Wilson.....   | 50,000  | 55.6  | 1.00                         | 1/1/2006               | 200,000  | 325,779 | 518,748  |
| Robert F. Wilkins..... | 20,000  | 22.2  | 1.00                         | 1/1/2006               | 80,000   | 130,312 | 207,500  |
| R. Wayne Roland.....   | --  | --  | --                           | --                     | --   | --      | --       |

- (1) Options may terminate before their expiration date if the optionee's status as an employee or consultant is terminated or upon optionee's death.
- (2) The 5% and 10% assumed annual compound rates of stock price appreciation are mandated by the rules of the Securities and Exchange Commission and do not represent the Company's estimated projection of future prices of its securities. In calculating the potential realizable value the Company used fair market value of \$5.00 per share at the date of grant as determined by the Board.

Option Exercises and Options Outstanding. The following table sets forth the number of shares covered by both exercisable and unexercisable stock options as of December 31, 1996 for the Named Executive Officers. Also reported are

the values for "in the money" options, which represent the positive spread between the exercise prices of any such existing stock options and the fair market value of the Company's Common Stock as of December 31, 1996.

AGGREGATE OPTION EXERCISES IN FISCAL 1996  
AND DECEMBER 31, 1996 OPTION VALUES

| NAME                   | SHARES ACQUIRED ON EXERCISE REALIZED |      | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1996 |               | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1996 (\$)(1) |               |
|------------------------|--------------------------------------|------|--|---------------|--|---------------|
|                        | #                                    | (\$) | EXERCISABLE  | UNEXERCISABLE | EXERCISABLE  | UNEXERCISABLE |
|                        |                                      |      |  |               |  |               |
| Patricia Gallup.....   | --                                   | --   | --   | --            | --   | --            |
| David Hall.....        | --                                   | --   | --   | --            | --   | --            |
| Wayne L. Wilson.....   | --                                   | --   | --   | 100,000       | --   | 200,000       |
| Robert F. Wilkins..... | --                                   | --   | --   | 40,000        | --   | 80,000        |
| R. Wayne Roland.....   | --                                   | --   | --   | --            | --   | --            |

(1) Calculated by determining the difference between the fair market value of the securities underlying the option at December 31, 1996 (\$5.00 per share as determined by the Board of Directors) and the exercise price of the options.

STOCK PLANS

1993 Incentive and Non-Statutory Stock Option Plan.

The Company's 1993 Incentive and Non-Statutory Stock Option Plan (the "1993 Option Plan") was approved by the Board of Directors and the stockholders in December 1993. At October 31, 1997, options to purchase a total of 799,000 shares of Company Common Stock were outstanding at a weighted average exercise price of \$3.60 per share under the 1993 Option Plan, and 1,450,000 shares of Company Common Stock were reserved for issuance under the 1993 Option Plan.

The 1993 Option Plan provides for the grant of incentive stock options and non-statutory stock options to employees, consultants, directors and officers. The exercise price of all incentive stock options granted under the 1993 Option Plan must be at least equal to the fair market value per share of Company Common Stock on the date of grant or 110% of the fair market value for stockholders holding greater than 10% of the Company's Common Stock. The terms of options granted under the 1993 Option Plan may not exceed ten years and options granted to stockholders holding greater than 10% of the Voting Common Stock may not exceed five years. In the event of termination of an optionee's employment or consulting arrangement, options may only be exercised, to the extent vested as of the date of termination, for a period not to exceed 30 days (180 days, in the case of termination as a result of death) following the date of termination. Options may not be sold or transferred other than by will or the laws of descent and distribution, and may be exercised during the life of the optionee only by the optionee. Effective upon the consummation of the Offering, the Company does not intend to grant any further options under the 1993 Option Plan.

1997 Stock Incentive Plan.

The Company's 1997 Stock Incentive Plan (the "1997 Stock Plan") provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, performance shares and awards of restricted stock and unrestricted stock ("Awards"). An aggregate of shares of Common Stock may be issued pursuant to the 1997 Stock Plan (subject to adjustment for certain changes in the Company's capitalization).

The 1997 Stock Plan is administered by the Board and the Compensation Committee. The Board has the authority to grant Awards under the 1997 Stock Plan and to accelerate, waive or amend certain provisions of outstanding Awards. The Board has authorized the Compensation Committee to administer certain aspects of the 1997 Stock Plan and has authorized the Chief Executive

Officer of the Company to grant Awards to non-executive officer employees. The maximum number of shares represented by such Awards may not exceed shares in the aggregate or shares to any one employee.

38

Incentive Stock Options and Nonstatutory Options. Optionees receive the right to purchase a specified number of shares of Common Stock at some time in the future at an option price and subject to such terms and conditions as are specified at the time of the grant. Incentive stock options and options that the Board or Compensation Committee intends to qualify as performance-based compensation under Section 162(m) of the Code may not be granted at an exercise price less than the fair market value of the Common Stock on the date of grant (or less than 110% of the fair market value in the case of incentive stock options granted to optionees holding 10% or more of the voting stock of the Company). All other options may be granted at an exercise price that may be less than, equal to or greater than the fair market value of the Common Stock on the date of grant.

Stock Appreciation Rights and Performance Shares. A stock appreciation right ("SAR") is based on the value of Common Stock and entitles the SAR holder to receive consideration to the extent that the fair market value on the date of exercise of the shares of Common Stock underlying the SAR exceeds the fair market value of the underlying shares on the date the SAR was granted. A performance share award entitles the recipient to acquire shares of Common Stock upon the attainment of specified performance goals.

Restricted and Unrestricted Stock. Restricted stock awards entitle recipients to acquire shares of Common Stock, subject to the right of the Company to repurchase all or part of such shares at their purchase price from the recipient in the event that the conditions specified in the applicable stock award are not satisfied prior to the end of the applicable restriction period established for such award. The Company may also grant (or sell at a purchase price not less than 85% of the fair market value on the date of such sale) to participants shares of Common Stock free of any restrictions under the 1997 Stock Plan.

All of the employees, officers, directors, consultants and advisors of the Company who are expected to contribute to the Company's future growth and success are eligible to participate in the 1997 Stock Plan.

Section 162(m) of the Code disallows a tax deduction to public companies for certain compensation in excess of \$1 million paid to the company's chief executive officer or to any of the four other most highly compensated executive officers. Certain compensation, including "performance-based compensation," is not included in compensation subject to the \$1 million limitation. The 1997 Stock Plan limits to the maximum number of shares of Common Stock with respect to which Awards may be granted to any employee in any calendar year. This limitation is intended to preserve the tax deductions to the Company that might otherwise be unavailable under Section 162(m) with respect to certain Awards.

1997 Employee Stock Purchase Plan.

The Company's 1997 Employee Stock Purchase Plan (the "Purchase Plan") authorizes the issuance of up to an aggregate of shares of Common Stock to participating employees. The Company will make one or more offerings ("Plan Offerings") to employees to purchase Common Stock under the Purchase Plan. Plan Offerings may be six months or one year in duration and will commence on June 1 and December 1, commencing on June 1 or December 1 immediately following the consummation of the Offering. During each Plan Offering, the maximum number of shares which may be purchased by a participating employee is determined on the first day of the Plan Offering period under a formula whereby 85% of the market value of a share of Common Stock on the first day of the Plan Offering period is divided into an amount equal to 10% of the employee's annualized compensation (or such lower percentage as may be established by the Compensation Committee) for the immediately preceding period equivalent in length to the Plan Offering. An employee may elect to have up to 10% deducted from his or her regular salary (or such lower percentage as may be established by the Compensation Committee for this purpose. The price at which an employee's option is exercised is the lower of (i) 85% of the closing price of the Common Stock on the Nasdaq National Market on the day that the Plan Offering commences or (ii) 85% of the closing price

on the Nasdaq National Market on the day that the Plan Offering terminates.

The Purchase Plan is administered by the Board and the Compensation Committee. With certain exceptions, all eligible employees, including directors and officers, regularly employed by the Company for at least six months on the applicable Plan Offering commencement date are eligible to participate in the Purchase Plan. The

39

Purchase Plan is intended to qualify as an "employee stock purchase plan" as defined in Section 423 of the Code.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee reviews and approves compensation and benefits for the Company's executive officers, and grants options to executive officers under the 1997 Stock Plan. No interlocking relationship exists between any member of the Compensation Committee and any member of any other company's board of directors or compensation committee.

40

#### CERTAIN TRANSACTIONS

Since inception, the Company has been privately held by the two principal stockholders and, in all periods described in the Prospectus, has elected to be treated as an S Corporation for federal and applicable state tax laws. As a result, the principal stockholders have conducted activities and acquired properties through other entities owned directly by them rather than through the Company and such entities have entered into transactions with the Company. The following description is a summary of the material portions of such transactions. Following the consummation of the Offering, all transactions described below, other than the leases of facilities, will terminate.

#### LEASES

The Company currently has leases for a facility in Marlow, New Hampshire and two facilities in Keene, New Hampshire with Gallup & Hall, a partnership ("G&H") owned solely by Patricia Gallup and David Hall, the Company's principal stockholders. The leases for the Keene, New Hampshire facilities expire in April 2002 and July 2008 and require annual rental payments of \$45,000 (subject to annual adjustment for changes in the consumer price index) and \$99,600, respectively. The lease for the Marlow, New Hampshire facility expires in May 2007 and requires annual rental payments of \$106,200 (subject to adjustment every three years for changes in the consumer price index). These leases also obligate the Company to pay certain real estate taxes and insurance premiums on the premises. Rent expense under all such leases aggregated \$260,000, \$236,000 and \$236,000 for the years ended December 31, 1994, 1995 and 1996, respectively, and \$176,000 and \$192,000 for the nine months ended September 30, 1996 and 1997, respectively. The Company also leased an additional facility in Marlow, New Hampshire from an entity owned 20% by David Hall, which was terminated in 1996. Lease payments for such facility were \$44,000, \$25,000, (\$171,000) (net of a \$200,000 lease termination payment received by the Company) and \$20,000, for the years ended December 31, 1994, 1995 and 1996, and the nine months ended September 30, 1996, respectively.

The Company also leases several other buildings from G&H on a month-to-month basis. Rent expense under all such leases aggregated \$37,000, \$37,000 and \$46,000 for the years ended December 31, 1994, 1995 and 1996, respectively, and \$35,000 and \$35,000 for the nine months ended September 30, 1996 and 1997, respectively.

In November 1997, the Company entered into a fifteen-year lease for a new 103,000 square foot corporate headquarters in Merrimack, New Hampshire with G&H Post, L.L.C., an entity owned solely by Patricia Gallup and David Hall. The Company expects to occupy the new facility in the summer of 1998. Annual rental expense under the terms of the lease will be \$823,000, or approximately \$8.00 per square foot, for the first five years of the lease, increasing to \$926,000 for years six through ten and to \$1.0 million for years 11 through 15.

While the Company believes the terms of each of these leases are fair to the Company, their terms were not negotiated on an arms-length basis and, accordingly, there can be no assurance that the terms of each of the leases are as favorable to the Company as those which could have been obtained from independent third parties.

#### CERTAIN STOCKHOLDER LOANS

Prior to the Offering, Patricia Gallup and David Hall made loans to the Company to fund working capital requirements. Such indebtedness bore interest at 6% and was payable on demand. The maximum aggregate amount owed to Patricia Gallup and David Hall at any time during the years ended December 31, 1994 and 1995 was \$1.6 million. Such indebtedness was repaid in full during 1995. Interest payments on such indebtedness were approximately \$74,000 and \$4,000 for the years ended December 31, 1994 and 1995, respectively.

#### TRANSFER OF PATENTS, PATENT APPLICATION RIGHTS AND RELATED PROPRIETARY MATERIALS

During 1994, the Company transferred to Patricia Gallup and David Hall certain patents, patent application rights and related proprietary materials to certain technologies then under development by the Company. The

41

carrying value of these assets at the time of transfer was nil as all related costs were expensed by the Company as incurred. Research and development costs related to these technologies and charged to expense during the year ended December 31, 1994 totaled approximately \$1.1 million. All development activities related to these technologies were assumed, effective January 1, 1995, by a new company organized and owned solely by Patricia Gallup and David Hall. None of the transferred intellectual property related to the Company's business as presently conducted or as proposed to be conducted.

#### OTHER TRANSACTIONS WITH AFFILIATED COMPANIES

The Company purchased administrative support services from an affiliated company owned solely by Patricia Gallup and David Hall. Amounts paid to such company totaled \$736,000 for the year ended December 31, 1996 and \$377,000 and \$671,000 for the nine months ended September 30, 1996 and 1997, respectively. Subsequent to the Offering, the Company will not purchase any services from such affiliate.

The Company purchased television advertising from an affiliated company owned solely by Patricia Gallup and David Hall. Amounts paid to such company totaled \$223,000, \$77,000 and \$0 for the years ended December 31, 1994, 1995 and 1996, respectively, and \$492,000 for the nine months ended September 30, 1997. The Company does not expect to purchase any advertising from such affiliate subsequent to the Offering. During 1994, the Company recorded income from the rental of certain equipment to such affiliate of \$186,000. The Company recorded no income for the use of certain equipment from such affiliate for the years ended December 31, 1995 and 1996 and the nine months ended September 30, 1997. The Company also made advances of funds to such affiliate during the year ended December 31, 1994 totalling \$544,000. The Company determined that collection of such advances was uncertain, and recorded a \$544,000 expense representing an allowance for uncollectible receivables from affiliates during the year ended December 31, 1994. The Company subsequently wrote off the related receivable during the year ended December 31, 1996.

The Company also purchased services from other affiliated entities aggregating \$55,000, \$3,000 and \$27,000 for the years ended December 31, 1994, 1995 and 1996, respectively.

The Company provided various management-related services to entities owned solely by Patricia Gallup and David Hall, for which the Company received \$46,000 and \$78,000 during the years ended December 31, 1994 and 1995. The Company received no payments for these services during the year ended December 31, 1996 and the nine months ended September 30, 1997. The Company does not anticipate providing such services subsequent to the Offering.

The Company sold certain property and equipment having net book values of \$77,000, \$30,000, \$0 and \$14,000 during the years ended December 31, 1994, 1995, 1996, and the nine months ended September 30, 1997 respectively, to



affiliated companies owned solely by Patricia Gallup and David Hall. Proceeds received with respect to these sales totaled \$102,000, \$33,000, \$19,000 and \$1,000 in 1994, 1995, 1996 and the nine months ended September 30, 1997, respectively.

S CORPORATION DISTRIBUTIONS AND RELATED DIVIDEND PAYABLE

The Company has made accruals or distributions of S Corporation earnings, accounted for as additional compensation expense, to its stockholders. Such accruals aggregated \$1.3 million for the year ended December 31, 1996 and \$1.4 million and \$8.6 million for the nine months ended September 30, 1996 and 1997, respectively. Subsequent to September 30, 1997, the Company expects to declare a dividend to its stockholders representing cumulative undistributed S Corporation earnings through the date of the closing of the Offering (at which time the Company's election to be treated as an S Corporation will terminate). At September 30, 1997, the amount of such cumulative undistributed S Corporation earnings was approximately \$26 million. The Company expects to pay the dividend from the net proceeds of the Offering. See "Use of Proceeds" and Note 12 to the Financial Statements.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding beneficial ownership of the Company's voting securities as of December 31, 1997, assuming exercise of options that are vested and would be exercisable, assuming consummation of the Offering, within 60 days of December 31, 1997, (i) by each person who, to the knowledge of the Company, beneficially owns more than 5% of any class of the Company's voting securities; (ii) by each director of the Company; (iii) by each Named Executive Officer of the Company named under "Management--Executive Compensation--Summary Compensation Table," and (iv) by all directors and officers of the Company as a group. The address for all executive officers and directors is c/o PC Connection, Inc., 528 Route 13, Milford, New Hampshire 03055.

| NAME   | SHARES<br>BENEFICIALLY OWNED(1) | PERCENT OWNERSHIP   |                        |
|--|---------------------------------|---------------------|------------------------|
|  |                                 | BEFORE THE OFFERING | AFTER THE OFFERING (1) |
| Patricia Gallup(2)   | 4,500,000                       | 50.0%               |                        |
| David Hall(3)  | 4,500,000                       | 50.0%               |                        |
| Wayne L. Wilson(4)   | 112,500                         | 1.2%                |                        |
| Robert F. Wilkins(5)   | 65,000                          | *                   |                        |
| R. Wayne Roland(6)   | 10,000                          | *                   |                        |
| David Beffa-Negrini(7)   | 175,000                         | 1.9%                |                        |
| Martin C. Murrer(8)  | 50,000                          | *                   |                        |
| All executive officers and directors as a group (nine persons) | 9,412,500                       | 100.0%              |                        |

\* Less than one percent

- (1) Does not reflect the Reorganization.
- (2) Includes 1,125,000 shares held of record by Gallup PC Connection Stock Trust FOB Patricia Gallup.
- (3) Includes 1,125,000 shares held of record by Hall PC Connection Stock Trust FOB David Hall.
- (4) Includes 112,500 shares issuable upon exercise of stock options that are vested and would be exercisable, assuming consummation of the Offering, within 60 days of December 31, 1997.
- (5) Includes 65,000 shares issuable upon exercise of stock options that are vested and would be exercisable, assuming consummation of the Offering, within 60 days of December 31, 1997.
- (6) Includes 10,000 shares issuable upon exercise of stock options that are vested and would be exercisable, assuming consummation of the Offering,

within 60 days of December 31, 1997.

- (7) Includes 175,000 shares issuable upon exercise of stock options that are vested and would be exercisable, assuming consummation of the Offering, within 60 days of December 31, 1997.
- (8) Includes 50,000 shares issuable upon exercise of stock options that are vested and would be exercisable, assuming consummation of the Offering, within 60 days of December 31, 1997.

43

#### DESCRIPTION OF CAPITAL STOCK

As of December 31, 1997 (after giving effect to the Reorganization), there were outstanding an aggregate of \_\_\_\_\_ shares of Company Common Stock held of record by four stockholders.

#### COMMON STOCK

The Company's Amended and Restated Articles of Incorporation ("the Restated Articles") authorize the issuance of up to \_\_\_\_\_ shares of Company Common Stock, \$.01 par value per share. Holders of Voting Common Stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of Voting Common Stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of Company Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the Board out of funds legally available therefore, subject to any preferential dividend rights of outstanding shares of preferred stock. Upon the liquidation, dissolution or winding up of the Company, the holders of Company Common Stock are entitled to receive ratably the net assets of the Company available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding shares of preferred stock. Holders of Company Common Stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of Company Common Stock are, and the shares of Common Stock offered by the Company in the Offering will be, when issued and paid for, fully paid and nonassessable. The rights, preferences and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which the Company may designate and issue in the future.

#### PREFERRED STOCK

The Restated Articles authorize the issuance of up to 7,500,000 shares of preferred stock, \$.01 par value per share (the "Preferred Stock"). Under the terms of the Restated Articles, the Board is authorized, subject to any limitations prescribed by law, without stockholder approval, to issue such shares of Preferred Stock in one or more series. Each such series of Preferred Stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the Board.

The purpose of authorizing the Board to issue Preferred Stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding voting stock of the Company. The Company has no present plans to issue any shares of Preferred Stock.

#### NEW HAMPSHIRE LAW AND CERTAIN PROVISIONS OF THE RESTATED ARTICLES AND BYLAWS

Under the Restated Articles, any vacancy on the Board, however occurring, including a vacancy resulting from an enlargement of the Board, may only be filled by vote of a majority of the directors then in office. The Restated Articles also provide that any action required or permitted to be taken by the stockholders of the Company at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting and may not be taken by written action in lieu of a meeting. The Restated Articles further provide that special meetings of the stockholders may only be called by a Chairman of the Board, the Board or the holders of shares

representing at least ten percent of all the votes enabled to be cast on any issue proposed to be considered at the special meeting. Under the Company's Bylaws, in order for any matter to be considered "properly brought" before a meeting, a stockholder must comply with certain requirements regarding advance notice to the Company. The foregoing provisions could have the effect of delaying stockholder actions which are favored by the holders of a majority of the outstanding voting securities of the Company and may also discourage another person or entity from making a tender offer for the Company's Common Stock, because such

44

person or entity, even if it acquired a majority of the outstanding voting securities of the Company, would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders meeting, and not by written consent.

The Restated Articles contain certain provisions permitted under the New Hampshire Business Corporation Act relating to the liability of directors. The provisions eliminate a director's liability for monetary damages for a breach of fiduciary duty, except in certain circumstances involving wrongful acts, such as the breach of a director's duty of loyalty or acts or omissions which involve intentional misconduct or a knowing violation of law. Further, the Restated Articles contain provisions to indemnify the Company's directors and officers to the fullest extent permitted by the New Hampshire Business Corporation Act. The Company believes that these provisions will assist the Company in attracting and retaining qualified individuals to serve as directors.

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's Common Stock is American Stock Transfer & Trust Company.

#### SHARES ELIGIBLE FOR FUTURE SALE

Prior to the Offering, there has been no market for the Common Stock of the Company. Future sales of substantial amounts of Common Stock in the public market could adversely affect prevailing market prices.

Upon completion of the Offering (based on shares outstanding at December 31, 1997), the Company will have outstanding an aggregate of        shares of Common Stock, assuming no exercise of the Underwriters' over-allotment option and no exercise of outstanding options. The        shares sold in the Offering will be freely tradeable without restrictions or further registration under the Securities Act, unless such shares are purchased by an existing "affiliate" of the Company as that term is defined in Rule 144 under the Securities Act (an "Affiliate"). The remaining        shares of Common Stock held by existing stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act ("Restricted Shares"). Restricted Shares may be sold in the public market only if registered or if they qualify for an exemption from registration, including the exemption provided by Rule 144 promulgated under the Securities Act, which rule is summarized below.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this Prospectus, a person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least one year (including the holding period of any prior owner except an Affiliate) would be entitled to sell within any three-month period a number of shares that does not exceed the greater of (i) one percent of the number of shares of Common Stock then outstanding (which will equal approximately        shares immediately after the Offering); or (ii) the average weekly trading volume of the Common Stock on the Nasdaq National Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about the Company. Under Rule 144(k), a person who is not deemed to have been an Affiliate of the Company at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years (including the holding period of any prior owner except an Affiliate), is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Accordingly, unless otherwise restricted, "144(k) shares" may therefore be sold immediately upon the completion of the Offering.

All Company officers, directors and existing stockholders and holders of stock options exercisable within 180 days after the date of this Prospectus have entered into agreements (the "Lock-up Agreements") pursuant to which they have agreed not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer, lend

45

or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock for a period of 180 days after the date of this Prospectus, without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation ("DLJ"), subject to certain limited exceptions.

Following the Offering, the Company intends to file registration statements under the Securities Act covering all shares of Common Stock subject to outstanding options or reserved for issuance under the Company's 1993 Option Plan, 1997 Stock Plan and 1997 Purchase Plan. See "Management--Stock Plans." Accordingly, shares registered under such registration statements will, subject to Rule 144 volume limitations applicable to Affiliates, be available for sale in the open market following the expiration of the Lock-up Agreements.

The Company has agreed not to offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer, lend or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, or enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of the Common Stock, for a period of 180 days after the date of this Prospectus, without the prior written consent of DLJ, subject to certain limited exceptions.

46

UNDERWRITING

Subject to certain conditions contained in the Underwriting Agreement (the "Underwriting Agreement"), the underwriters named below (the "Underwriters"), for whom DLJ, NationsBanc Montgomery Securities, Inc. and William Blair & Company, L.L.C. are acting as representatives (the "Representatives"), have severally agreed to purchase from the Company the number of shares of Common Stock that each Underwriter has agreed to purchase as set forth opposite its name below:

| UNDERWRITERS   | NUMBER OF SHARES |
|--|------------------|
| Donaldson, Lufkin & Jenrette Securities Corporation..... |                  |
| NationsBanc Montgomery Securities, Inc.....              |                  |
| William Blair & Company, L.L.C. ....                     |                  |
|  | ----             |
| Total.....   | ====             |

The Underwriting Agreement provides that the obligations of the several Underwriters to purchase and accept delivery of the shares of Common Stock

offered are subject to approval of certain legal matters by counsel and certain other conditions. If any shares of Common Stock are purchased by the Underwriters pursuant to the Underwriting Agreement, all such shares (other than shares covered by the over-allotment option described below) must be purchased.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Underwriters may be required to make in respect thereof.

The Representatives have advised the Company that the Underwriters propose initially to offer the shares of Common Stock to the public at the price set forth on the cover page of this Prospectus, and to certain dealers (who may include the Underwriters) at such price less a concession not in excess of \$ per share. The Underwriters may allow, and such dealers may reallow, discounts not in excess of \$ per share to any other Underwriter and certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The Company and the Selling Stockholders have granted an option to the Underwriters exercisable for 30 days after the date of this Prospectus, to purchase up to an aggregate of additional shares of Common Stock at the initial public offering price set forth on the cover page of this Prospectus, net of underwriting discounts and commissions. Such option may be exercised at any time until 30 days after the date of this Prospectus. See "Principal Stockholders." To the extent that the Representatives exercise such option, each of the Underwriters will be committed, subject to certain conditions, to purchase a number of option shares proportionate to such Underwriter's initial commitment as indicated in the preceding table.

At the Company's request, the Underwriters have reserved up to shares for sale at the initial public offering price to certain of the Company's employees, members of their immediate families and other individuals who are business associates of the Company in each case as such parties have expressed an interest in purchasing such shares. The number of shares available for sale to the general public will be reduced to the extent these

47

individuals purchase such reserved shares. Any reserved shares not purchased will be offered by the Underwriters to the general public on the same basis as the other shares offered hereby.

The Company, its officers, directors, stockholders and certain employees of the Company have agreed, subject to certain exceptions, not to directly or indirectly sell, offer to sell, grant any option for the sale of or otherwise dispose of any shares of Common Stock or securities convertible into or exchangeable or exercisable for Common Stock, without the prior written consent of DLJ, on behalf of the Underwriters, for a period of 180 days after the date of this Prospectus. See "Shares Eligible for Future Sale."

Prior to the Offering, there has been no public market for the Common Stock of the Company. The initial public offering price will be determined through negotiations between the Company and the Representatives. Among the factors considered in determining the initial public offering price, in addition to prevailing market conditions, are price-earnings ratios of publicly traded companies that the Representatives believe to be comparable to the Company, certain financial information of the Company, the history of, and the prospects for, the Company and the industry in which it competes, and assessment of the Company's management, its past and present operations, the prospects for, and timing of, future revenues of the Company, the present state of the Company's development, and the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to the Company. There can be no assurance that an active trading market will develop for the Common Stock or that the Common Stock will trade in the public market subsequent to the Offering at or above the initial public offering price.

The Company has applied to have the Common Stock quoted on the Nasdaq National Market under the symbol "PCCC."

The Underwriters do not intend to confirm sales of the Common Stock offered hereby to any accounts over which they exercise discretionary authority.

Martin C. Murrer, a managing director of DLJ, is a director of the Company. See "Management-- Executive Officers and Directors."

#### LEGAL MATTERS

The validity of the issuance of the shares of Common Stock offered hereby will be passed upon for the Company by Hale and Dorr LLP, Boston, Massachusetts. Certain legal matters in connection with the Offering will be passed upon for the Underwriters by Latham & Watkins, New York, New York.

#### EXPERTS

The financial statements of the Company as of December 31, 1995 and 1996 and September 30, 1997 and for each of the three years in the period ended December 31, 1996 and for the nine months ended September 30, 1997, included in this Prospectus, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

#### ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a Registration Statement (which term shall include all amendments, exhibits, schedules and supplements thereto) on Form S-1 under the Securities Act with respect to the shares of Common Stock offered hereby. This Prospectus, which constitutes a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement, certain parts of which are omitted in accordance with the rules and regulations of the

48

Commission, to which Registration Statement reference is hereby made. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the Registration Statement, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference. The Registration Statement and the exhibits thereto may be inspected and copied at prescribed rates at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the regional offices of the Commission located at Seven World Trade Center, 13th Floor, New York, New York 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. In addition, the Company is required to file electronic versions to these documents with the Commission through the Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. The Commission maintains a World Wide Web site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

The Company intends to distribute annual reports to its stockholders containing audited financial statements. The Company also intends to make available to its stockholders, within 45 days after the end of each fiscal quarter, reports for the first three quarters of each fiscal year containing unaudited interim financial information.

49

#### PC CONNECTION, INC.

#### INDEX TO FINANCIAL STATEMENTS

|  |     |
|--|-----|
| Independent Auditors' Report.....  | F-2 |
| Balance Sheets as of December 31, 1995 and 1996 and September 30, 1997....   | F-3 |
| Statements of Operations for the years ended December 31, 1994, 1995 and 1996 and for the nine months ended September 30, 1996 (unaudited) and 1997..... | F-4 |
| Statements of Changes in Stockholders' Equity for the years ended December 31, 1994, 1995 and 1996 and for the nine months ended September 30,           |     |

|  |     |
|--|-----|
| 1997.....  | F-5 |
| Statements of Cash Flows for the years ended December 31, 1994, 1995 and 1996 and for the nine months ended September 30, 1996 (unaudited) and 1997..... | F-6 |
| Notes to Financial Statements.....   | F-7 |

F-1

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
PC Connection, Inc.:

We have audited the accompanying balance sheets of PC Connection, Inc. as of December 31, 1995 and 1996 and September 30, 1997, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996 and for the nine months ended September 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of PC Connection, Inc. as of December 31, 1995 and 1996 and September 30, 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996 and for the nine months ended September 30, 1997, in conformity with generally accepted accounting principles.

Deloitte & Touche llp

Boston, Massachusetts  
November 4, 1997

(December 29, 1997 as to the third through eighth paragraphs of Note 12)

F-2

PC CONNECTION, INC.

BALANCE SHEETS

(AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

| ASSETS   | DECEMBER 31, |        | SEPTEMBER 30, 1997 | PRO FORMA          |
|--|--------------|--------|--------------------|--------------------|
|  | 1995         | 1996   |                    | SEPTEMBER 30, 1997 |
|  |              |        |                    | (UNAUDITED)        |
| Current Assets:                                |              |        |                    |                    |
| Cash.....                                      | \$ 674       | \$ 162 | \$ 723             | \$ 723             |
| Accounts receivable, net.....                  | 16,096       | 21,043 | 24,541             | 24,541             |
| Inventories--merchandise.....                  | 22,262       | 44,419 | 60,745             | 60,745             |
| Prepaid expenses and other current assets..... | 2,520        | 1,943  | 1,237              | 4,283              |
| Total current assets.....                      | 41,552       | 67,567 | 87,246             | 90,292             |

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Property and equipment, net.....   | 7,063    | 7,671    | 8,303    | 8,303    |
| Deferred income taxes.....   | --       | --       | --       | 1,179    |
|  | -----    | -----    | -----    | -----    |
| Total.....   | \$48,615 | \$75,238 | \$95,549 | \$99,774 |
|  | =====    | =====    | =====    | =====    |
| LIABILITIES AND STOCKHOLDERS'  |          |          |          |          |
| EQUITY   |          |          |          |          |
| Current Liabilities:   |          |          |          |          |
| Short-term borrowings.....   | \$ 4,933 | \$12,307 | \$ 8,130 | \$ 8,130 |
| Current maturities of long-term<br>debt.....   | --       | 750      | 1,250    | 1,250    |
| Dividend payable.....  | --       | --       | --       | 26,000   |
| Amounts payable to stockholders..  | --       | --       | 2,958    | 2,958    |
| Accounts payable.....  | 22,140   | 36,568   | 53,711   | 53,711   |
| Accrued expenses and other<br>liabilities.....   | 3,485    | 3,320    | 4,720    | 6,445    |
|  | -----    | -----    | -----    | -----    |
| Total current liabilities.....   | 30,558   | 52,945   | 70,769   | 98,494   |
| Term Loan, less current maturities<br>.....  | 5,000    | 4,250    | 3,500    | 3,500    |
|  | -----    | -----    | -----    | -----    |
| Total liabilities.....   | 35,558   | 57,195   | 74,269   | 101,994  |
|  | -----    | -----    | -----    | -----    |
| Commitments and Contingencies (Note<br>10)   |          |          |          |          |
| Stockholders' Equity (Deficiency):   |          |          |          |          |
| Common stock:  |          |          |          |          |
| Series A Non-Voting, \$.01 par<br>value, 7,500,000 shares<br>authorized, 6,750,000 shares<br>issued and outstanding in 1995,<br>1996 and 1997..... | 68       | 68       | 68       | 68       |
| Series B Voting, \$.01 par value,<br>2,500,000 shares authorized,<br>2,250,000 shares issued and<br>outstanding in 1995, 1996 and<br>1997.....     | 22       | 22       | 22       | 22       |
| Additional paid-in capital<br>(deficiency).....  | 3,022    | 3,252    | 4,037    | (2,310)  |
| Retained earnings.....   | 9,945    | 14,701   | 17,153   | --       |
|  | -----    | -----    | -----    | -----    |
| Total stockholders' equity<br>(deficiency).....  | 13,057   | 18,043   | 21,280   | (2,220)  |
|  | -----    | -----    | -----    | -----    |
| Total.....   | \$48,615 | \$75,238 | \$95,549 | \$99,774 |
|  | =====    | =====    | =====    | =====    |

See notes to financial statements.

F-3

PC CONNECTION, INC.

STATEMENTS OF OPERATIONS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

|  | YEARS ENDED<br>DECEMBER 31, |           |            | NINE MONTHS ENDED<br>SEPTEMBER 30, |            |
|--|-----------------------------|-----------|------------|------------------------------------|------------|
|  | 1994                        | 1995      | 1996       | 1996                               | 1997       |
|  | -----                       | -----     | -----      | -----                              | -----      |
|  | (UNAUDITED)                 |           |            |                                    |            |
| Net sales.....                         | \$196,659                   | \$252,217 | \$ 333,322 | \$225,074                          | \$ 383,460 |
| Cost of sales.....                     | 165,957                     | 211,299   | 282,117    | 189,644                            | 330,008    |
|  | -----                       | -----     | -----      | -----                              | -----      |
| Gross profit.....                      | 30,702                      | 40,918    | 51,205     | 35,430                             | 53,452     |
| Selling, general and<br>administrative |                             |           |            |                                    |            |



|   |            |          |            |          |            |
|---|------------|----------|------------|----------|------------|
| expenses.....   | 32,653     | 38,373   | 43,739     | 31,005   | 40,965     |
| Income (loss) from<br>operations.....                           | (1,951)    | 2,545    | 7,466      | 4,425    | 12,487     |
| Interest expense.....   | (594)      | (1,296)  | (1,269)    | (803)    | (933)      |
| Other, net.....   | 80         | 62       | 70         | 20       | (43)       |
| Income taxes.....   | 124        | (38)     | (252)      | (134)    | (429)      |
| Additional<br>stockholder/officer<br>compensation.....          | --         | --       | (1,259)    | (1,407)  | (8,630)    |
| Net income (loss).....  | \$ (2,341) | \$ 1,273 | \$ 4,756   | \$ 2,101 | \$ 2,452   |
| Pro forma data:   |            |          |            |          |            |
| Historical income<br>before income taxes..                      |            |          | \$ 5,008   |          | \$ 2,881   |
| Pro forma other<br>adjustments.....                             |            |          | 1,139      |          | 8,540      |
| Pro forma income<br>before income taxes<br>.....                |            |          | 6,147      |          | 11,421     |
| Pro forma income<br>taxes.....                                  |            |          | 2,397      |          | 4,454      |
| Pro forma net income..  |            |          | \$ 3,750   |          | \$ 6,967   |
| Pro forma net income<br>per common share.....                   |            |          | \$ 0.35    |          | \$ 0.66    |
| Pro forma weighted<br>average common shares<br>outstanding..... |            |          | 10,597,141 |          | 10,595,625 |

See notes to financial statements.

F-4

PC CONNECTION, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(AMOUNTS IN THOUSANDS)

|  | SERIES A<br>COMMON<br>STOCK | SERIES B<br>COMMON<br>STOCK | NO PAR<br>VALUE<br>COMMON<br>STOCK | ADDITIONAL<br>PAID-IN<br>CAPITAL | RETAINED<br>EARNINGS | TOTAL    |
|--|-----------------------------|-----------------------------|------------------------------------|----------------------------------|----------------------|----------|
|  | -----                       | -----                       | -----                              | -----                            | -----                | -----    |
| Balance, January 1,<br>1994.....                                     | \$--                        | \$--                        | \$ 299                             | \$2,390                          | \$11,013             | \$13,702 |
| Net loss.....  | --                          | --                          | --                                 | --                               | (2,341)              | (2,341)  |
| Compensation under non-<br>statutory stock option<br>agreements..... | --                          | --                          | --                                 | 325                              | --                   | 325      |
| Balance, December 31,<br>1994.....                                   | --                          | --                          | 299                                | 2,715                            | 8,672                | 11,686   |
| Recapitalization.....  | 68                          | 22                          | (299)                              | 209                              | --                   | --       |
| Net income.....  | --                          | --                          | --                                 | --                               | 1,273                | 1,273    |
| Compensation under non-<br>statutory stock option<br>agreements..... | --                          | --                          | --                                 | 98                               | --                   | 98       |
| Balance, December 31,  |                             |                             |                                    |                                  |                      |          |

|  |       |       |       |         |          |          |
|--|-------|-------|-------|---------|----------|----------|
| 1995.....  | 68    | 22    | --    | 3,022   | 9,945    | 13,057   |
|  | ----  | ----  | ----  | ----    | ----     | ----     |
| Net income.....  | --    | --    | --    | --      | 4,756    | 4,756    |
| Compensation under non-<br>statutory stock option<br>agreements..... | --    | --    | --    | 230     | --       | 230      |
|  | ----  | ----  | ----  | ----    | ----     | ----     |
| Balance, December 31,<br>1996.....                                   | 68    | 22    | --    | 3,252   | 14,701   | 18,043   |
|  | ----  | ----  | ----  | ----    | ----     | ----     |
| Net income.....  | --    | --    | --    | --      | 2,452    | 2,452    |
| Compensation under non-<br>statutory stock option<br>agreements..... | --    | --    | --    | 785     | --       | 785      |
|  | ----  | ----  | ----  | ----    | ----     | ----     |
| Balance, September 30,<br>1997.....                                  | \$ 68 | \$ 22 | \$ -- | \$4,037 | \$17,153 | \$21,280 |
|  | ===== | ===== | ===== | =====   | =====    | =====    |

See notes to financial statements.

F-5

PC CONNECTION, INC.

STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

|   | YEARS ENDED DECEMBER 31, |          |          | NINE MONTHS ENDED<br>SEPTEMBER 30, |          |
|---|--------------------------|----------|----------|------------------------------------|----------|
|   | 1994                     | 1995     | 1996     | 1996                               | 1997     |
|   | -----                    | -----    | -----    | -----                              | -----    |
|   |                          |          |          | (UNAUDITED)                        |          |
| CASH FLOWS FROM OPERATING<br>ACTIVITIES:  |                          |          |          |                                    |          |
| Net income (loss).....  | \$ (2,341)               | \$ 1,273 | \$ 4,756 | \$ 2,101                           | \$ 2,452 |
| Adjustments to reconcile<br>net income to net cash<br>provided by (used for)<br>operating activities: |                          |          |          |                                    |          |
| Depreciation and<br>amortization.....   | 2,143                    | 2,795    | 2,815    | 1,976                              | 2,713    |
| Deferred state income<br>taxes.....   | (169)                    | (100)    | 48       | --                                 | (53)     |
| Compensation under<br>nonstatutory stock<br>option agreements.....                                    | 325                      | 98       | 230      | 162                                | 785      |
| Provision for doubtful<br>accounts.....   | 580                      | 997      | 1,297    | 900                                | 1,577    |
| Gain (loss) on sales of<br>assets.....  | (22)                     | (37)     | (53)     | --                                 | 54       |
| Changes in assets and<br>liabilities:   |                          |          |          |                                    |          |
| Accounts receivable.....  | (2,685)                  | (5,840)  | (6,244)  | (1,437)                            | (5,075)  |
| Inventories --<br>merchandise.....  | (8,494)                  | 7,993    | (22,157) | (12,254)                           | (16,326) |
| Prepaid expenses and<br>other current assets...   | (974)                    | (479)    | 529      | 1,063                              | 759      |
| Accounts payable.....   | 16,836                   | (10,501) | 14,428   | 3,544                              | 17,143   |
| Amounts payable to<br>stockholders.....   | --                       | --       | --       | --                                 | 2,958    |
| Accrued expenses and<br>other liabilities.....  | 577                      | 1,007    | (165)    | 579                                | 1,400    |
|   | -----                    | -----    | -----    | -----                              | -----    |
| Net cash provided by<br>(used for)<br>operating   |                          |          |          |                                    |          |

|  |          |          |          |          |           |
|--|----------|----------|----------|----------|-----------|
| activities.....  | 5,776    | (2,794)  | (4,516)  | (3,366)  | 8,387     |
| CASH FLOWS FROM INVESTING<br>ACTIVITIES:                           |          |          |          |          |           |
| Purchases of property and<br>equipment.....                        | (4,875)  | (945)    | (3,433)  | (2,036)  | (3,421)   |
| Proceeds from sale of<br>property and equipment...                 | 112      | 40       | 63       | --       | 22        |
| Net cash used for<br>investing<br>activities.....                  | (4,763)  | (905)    | (3,370)  | (2,036)  | (3,399)   |
| CASH FLOWS FROM FINANCING<br>ACTIVITIES:                           |          |          |          |          |           |
| Proceeds from short-term<br>borrowings.....                        | 45,356   | 64,882   | 84,484   | 56,560   | 112,476   |
| Repayment of short-term<br>borrowings.....                         | (45,142) | (65,482) | (77,110) | (51,308) | (116,653) |
| Proceeds from (repayment<br>of) term loan.....                     | --       | 5,000    | --       | --       | (250)     |
| Repayment of notes<br>payable-- stockholders...                    | (1,013)  | (573)    | --       | --       | --        |
| Net cash provided by<br>(used for)<br>financing<br>activities..... | (799)    | 3,827    | 7,374    | 5,252    | (4,427)   |
| Increase (decrease) in<br>cash.....                                | 214      | 128      | (512)    | (150)    | 561       |
| Cash, beginning of<br>period.....                                  | 332      | 546      | 674      | 674      | 162       |
| Cash, end of period.....   | \$ 546   | \$ 674   | \$ 162   | \$ 524   | \$ 723    |
| SUPPLEMENTAL CASH FLOW<br>INFORMATION:                             |          |          |          |          |           |
| Interest paid.....   | \$ 547   | \$ 1,197 | \$ 1,247 | \$ 782   | \$ 1,021  |
| Income taxes paid.....   | 84       | 31       | 96       | 51       | 175       |

See notes to financial statements.

F-6

PC CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS

(INFORMATION PERTAINING TO THE NINE MONTHS ENDED SEPTEMBER 30, 1996, IS UNAUDITED) (AMOUNTS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates in the Preparation of Financial Statements

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

Interim Results for the Nine Months Ended September 30, 1996 (unaudited)

In the opinion of management, the accompanying unaudited interim financial statements for the nine months ended September 30, 1996 have been prepared on the same basis as the audited financial statements and include all

adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim period.

#### Revenue Recognition

Revenue on product sales is recognized at the time of shipment. A reserve for product returns is established based upon historical trends.

#### Inventories--Merchandise

Inventories (all finished goods) consisting of software packages, computer systems and peripheral equipment, are stated at cost (determined under the first-in, first-out method) or market, whichever is lower.

Changes in the inventory reserve consisted of the following:

|  | YEAR ENDED DECEMBER 31, |         |         | NINE MONTHS ENDED<br>SEPTEMBER 30, |         |
|--|-------------------------|---------|---------|------------------------------------|---------|
|  | 1994                    | 1995    | 1996    | 1996                               | 1997    |
| Beginning reserve.....                                     | \$150                   | \$ 800  | \$1,056 | \$1,056                            | \$1,705 |
| Current period provision,<br>charged to cost of sales..... | 720                     | 745     | 1,508   | 873                                | 2,745   |
| Inventory write-offs, net.....                             | (70)                    | (489)   | (859)   | (538)                              | (2,765) |
| Ending reserve.....  | \$800                   | \$1,056 | \$1,705 | \$1,391                            | \$1,685 |

#### Advertising Costs and Revenues

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

Advertising costs charged to expense were \$15,808, \$19,411, \$19,878, \$13,142 and \$19,519 for the years ended December 31, 1994, 1995 and 1996 and for the nine months ended September 30, 1996 and 1997,

F-7

PC CONNECTION, INC.

#### NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

respectively. Advertising costs of \$698 and \$698 were deferred and are included in prepaid expenses and other current assets at December 31, 1995 and 1996, respectively. Deferred advertising revenues at September 30, 1997 exceeded deferred advertising costs of \$686 and, accordingly, such deferred costs are included in accrued expenses and other liabilities.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation is provided for both financial and income tax reporting purposes over the estimated useful lives of the assets ranging from 3 to 7 years. For property acquired prior to 1996, depreciation was provided using accelerated methods. On January 1, 1996, the Company changed its accounting policy to provide depreciation on all property and equipment acquired after that date using the straight-line method. The effect of this change in accounting policy was to increase 1996 income before income taxes by approximately \$330 (\$.03 per share, on a pro forma basis). Amortization of leasehold improvements is provided for by the straight-line method for both financial and income tax reporting purposes. For financial reporting purposes, leasehold improvements are amortized over the terms of the related leases or their useful lives, whichever is shorter, whereas for income

tax reporting purposes, they are amortized over the applicable tax lives. The Company periodically evaluates the carrying value of property and equipment based upon current and anticipated net income and undiscounted cash flows, and recognizes an impairment when it is probable that such estimated future net income and/or cash flows will be less than the asset carrying value.

#### Tax Status and Income Taxes

The stockholders of the Company have elected S Corporation tax status. As a result of this election, the taxable income of the Company is reported in the individual federal income tax returns of the stockholders, and no provision for federal income taxes is included in the accompanying financial statements.

The Company and certain of its affiliates (entities under common control) file their New Hampshire business profits tax returns on a unitary basis. Each company calculates its tax provision on a separate company basis as if it filed a separate tax return.

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income taxes comprise the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Effective with the closing of the Company's proposed initial public offering ("the Offering," see Note 12), the Company's S Corporation election will automatically be terminated, and the Company will be subject to federal and state income taxes as a C Corporation from that date forward.

#### Additional Stockholder/Officer Compensation

Additional stockholder/officer compensation represents amounts accrued or distributed in excess of aggregate annual base salaries approved by the Board of Directors and generally represents Company-related federal income tax obligations payable by the stockholders.

#### Fair Value of Financial Instruments

The fair value of the Company's financial instruments, consisting of accounts receivable, accounts payable and bank borrowings, approximates carrying value.

F-8

PC CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

#### Concentration of Credit Risk

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

#### Stock-Based Compensation

Compensation expense associated with awards of stock or options to employees is measured using the intrinsic value method in accordance with APB Opinion No. 25. The Company's Board of Directors estimates fair value using market valuations of comparable publicly traded companies.

#### Recent Pronouncements of the Financial Accounting Standards Board

Recent pronouncements of the Financial Accounting Standards Board ("FASB"), which are not required to be adopted at September 30, 1997, include the following Statements of Financial Accounting Standards ("SFAS"):

SFAS No. 128, "Earnings Per Share," which will be required to be adopted by the Company for the fiscal year ending December 31, 1997, specifies the

computation, presentation, and disclosure requirements for earning per share for entities with publicly-held common stock. This new accounting standard will require presentation of basic earnings per share and diluted earnings per share. The effect of adopting this standard would be to report pro forma basic net income per share of \$0.38 and \$0.71, and pro forma diluted net income per share of \$0.36 and \$0.68, for the year ended December 31, 1996 and the nine months ended September 30, 1997, respectively.

SFAS No. 129, "Disclosure of Information about Capital Structure," which will be effective for the Company for the year ending December 31, 1997, consolidates existing disclosure requirements. This new standard contains no change in disclosure requirements for the Company.

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive income (all changes in equity during a period except those resulting from investments by and distributions to owners) and its components in the financial statements. This new standard, which will be effective for the Company for the year ending December 31, 1998, is not currently anticipated to have a significant impact on the Company's financial statements based on the current financial structure and operations of the Company.

SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which will be effective for the Company for the year ending December 31, 1998, establishes standards for reporting information about operating segments in the annual financial statements, selected information about operating segments in interim financial reports and disclosures about products and services, geographic areas and major customers. This new standard may require the Company to report financial information on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments, which may result in more detailed information in the notes to the Company's financial statements than is currently required and provided. The Company has not yet determined the effect, if any, of implementing SFAS No. 131 on its reporting of financial information.

## 2. PRO FORMA INFORMATION

### Results of Operations

The following pro forma adjustments have been made to the historical results of operations to make the presentation comparable to what would have been reported had the Company operated as a C Corporation:

(i) Elimination of stockholder/officer compensation expense in excess of aggregate annual base salaries of \$600 to be in effect during 1998 in accordance with employment agreements; and

F-9

PC CONNECTION, INC.

### NOTES TO FINANCIAL STATEMENTS-- (CONTINUED)

(ii) Computation of income tax expense assuming an effective tax rate of 39% (see Note 8) and after adjusting stockholder/officer compensation expense described in (i) above.

Pro forma net income per share is based upon the weighted average number of common and common equivalent shares outstanding. The pro forma weighted average number of common shares outstanding assumes that all stock options granted in January 1997, February 1997 and July 1997 were outstanding for all periods presented. Common equivalent shares are not included in the per share calculations where the effect of their inclusion would be anti-dilutive, except in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 83. The Bulletin requires that all common shares issued and options to purchase shares of common stock granted by the Company during the twelve-month period prior to filing of a proposed initial public offering be included in the calculation as if they were outstanding for all periods. The pro forma weighted average number of common shares outstanding for 1996 and for the nine months ended September 30, 1997 also assumes that shares required to pay the stockholder dividend totalling approximately \$26,000 (assuming a price per

share equal to the mid-point of the expected filing range of the Offering) were outstanding for all of 1996 and for the nine months ended September 30, 1997.

Pro forma supplemental net income per share of \$ 0.39 and \$0.65 for 1996 and the nine months ended September 30, 1997, respectively, assumes that the net proceeds from the Offering, after payment of the \$26,000 stockholder dividend, are used to retire debt.

Financial Position (unaudited)

The following pro forma adjustments have been made to the historical balance sheet to make the presentation comparable to what would have been reported had the Company operated as a C Corporation:

(i) Declaration of a stockholder dividend of approximately \$26,000 representing cumulative undistributed S Corporation earnings through September 30, 1997 (see Note 12); and

(ii) Establishment of net deferred income tax assets of approximately \$2,500 resulting from the termination of the Company's S Corporation status.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

|  | DECEMBER 31, |          | SEPTEMBER 30, |
|--|--------------|----------|---------------|
|  | 1995         | 1996     | 1997          |
| Trade.....                             | \$10,334     | \$16,125 | \$24,889      |
| Co-op advertising.....                 | 3,922        | 3,880    | 3,028         |
| Vendor returns, rebates and other..... | 4,010        | 5,309    | 4,198         |
| Total.....                             | 18,266       | 25,314   | 32,115        |
| Less allowances for:                   |              |          |               |
| Sales returns.....                     | (1,250)      | (2,650)  | (3,800)       |
| Doubtful accounts.....                 | (920)        | (1,621)  | (3,774)       |
| Accounts receivable, net.....          | \$16,096     | \$21,043 | \$24,541      |

Changes in the allowance for sales returns consisted of the following:

|  | YEAR ENDED   |         |         | NINE MONTHS |         |
|--|--------------|---------|---------|-------------|---------|
|  | DECEMBER 31, |         |         | ENDED       |         |
|  | 1994         | 1995    | 1996    | 1996        | 1997    |
| Allowance for Sales Returns                    |              |         |         |             |         |
| Beginning balance.....                         | \$ 800       | \$1,250 | \$1,250 | \$1,250     | \$2,650 |
| Net adjustments, charged to sales returns..... | 450          | --      | 1,400   | 150         | 1,150   |
| Ending balance.....                            | \$1,250      | \$1,250 | \$2,650 | \$1,400     | \$3,800 |

Changes in the allowance for doubtful accounts consisted of the following:

|  | YEAR ENDED<br>DECEMBER 31, |         |          | NINE MONTHS ENDED<br>SEPTEMBER 30, |          |
|--|----------------------------|---------|----------|------------------------------------|----------|
|  | 1994                       | 1995    | 1996     | 1996                               | 1997     |
| Allowance for Doubtful<br>Accounts:  |                            |         |          |                                    |          |
| Beginning balance.....   | \$610                      | \$ 894  | \$ 920   | \$ 920                             | \$ 1,621 |
| Provision for doubtful<br>accounts charged to<br>expense.....                                  | 580                        | 997     | 1,297    | 900                                | 1,577    |
| Provision charged to other<br>operating accounts (i.e.,<br>cost of sales,<br>advertising)..... | 479                        | 525     | 456      | 455                                | 2,298    |
| Write-off of uncollectible<br>accounts.....  | (775)                      | (1,496) | (1,052)  | (577)                              | (1,722)  |
| Ending balance.....  | \$894                      | \$ 920  | \$ 1,621 | \$ 1,698                           | \$ 3,774 |

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

|  | DECEMBER 31, |          | SEPTEMBER 30, |
|--|--------------|----------|---------------|
|  | 1995         | 1996     | 1997          |
| Leasehold improvements.....                              | \$ 4,326     | \$ 4,093 | \$ 3,764      |
| Furniture and equipment.....                             | 15,762       | 18,087   | 20,191        |
| Software licenses.....                                   | 1,007        | 1,060    | 1,415         |
| Automobiles.....   | 271          | 278      | 175           |
| Total.....   | 21,366       | 23,518   | 25,545        |
| Less accumulated depreciation and amorti-<br>zation..... | (14,303)     | (15,847) | (17,242)      |
| Property and equipment, net.....                         | \$ 7,063     | \$ 7,671 | \$ 8,303      |

#### 5. BANK BORROWINGS

At September 30, 1997, the Company had a revolving credit agreement with a bank providing for short-term borrowings equal to the lesser of \$30,000 or an amount determined by a formula based on accounts receivable and inventory balances, and a term loan for \$5,000, due in quarterly installments of \$250 through March 31, 2002. Short-term borrowings were collateralized by all accounts receivable and inventories (other than inventories pledged to secure trade credit arrangements) and bear interest at the prime rate plus 0.5% (8.5% at September 30, 1997). The term loan is collateralized by all other assets of the Company and bears interest at the prime rate plus 1.0% (9.0% at September 30, 1997). The revolving credit agreement includes various customary financial and operating covenants, including working capital requirements, debt-to-net-worth ratios, minimum net income requirements and restrictions on the payment of dividends, except for distributions in respect of income taxes, none of which, in the opinion of management, significantly restricts the Company's operations.

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



|                                    | WEIGHTED AVERAGE<br>INTEREST RATE | MAXIMUM AMOUNT<br>OUTSTANDING | AVERAGE AMOUNT<br>OUTSTANDING |
|------------------------------------|-----------------------------------|-------------------------------|-------------------------------|
|                                    | -----                             | -----                         | -----                         |
| Year ended December 31,            |                                   |                               |                               |
| 1994.....                          | 7.9%                              | \$11,349                      | \$6,215                       |
| 1995.....                          | 10.0%                             | 12,000                        | 9,613                         |
| 1996.....                          | 9.0%                              | 18,999                        | 7,921                         |
| Nine months ended September<br>30, |                                   |                               |                               |
| 1996.....                          | 9.0%                              | 10,543                        | 5,816                         |
| 1997.....                          | 8.6%                              | 16,770                        | 7,929                         |

F-11

PC CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

6. TRADE CREDIT ARRANGEMENTS

At September 30, 1997, the Company had security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow a collateralized position in inventory financed by the financial institutions up to an aggregate amount of \$24,900 (with seasonal increases to \$37,350 from October 22, 1997 through January 31, 1998). The cost of such financing under these agreements is borne by the suppliers. At September 30, 1997, accounts payable included \$10,572 owed to these financial institutions.

7. STOCKHOLDERS' EQUITY

Common Stock

On March 28, 1995, the Company amended its Articles of Incorporation to change the par value of its stock to \$.01 per share. Additionally, the Company reclassified the 10,000,000 authorized shares of common stock to 7,500,000 shares of Series A Non-Voting Common Stock, par value \$.01 per share, and 2,500,000 shares of Series B Voting Common Stock, par value \$.01 per share, with one vote per share.

1993 Incentive and Non-Statutory Stock Option Plan

In December 1993, the Board of Directors adopted and the stockholders approved the 1993 Incentive and Non-Statutory Stock Option Plan (the "Plan"). Under the terms of the Plan, the Company is authorized to make awards of restricted stock and to grant incentive and non-statutory options to employees of, and consultants and advisors to, the Company to purchase shares of the Company's common stock. A total of 1,450,000 shares of the Company's common stock may be issued upon exercise of options granted or awards made under the Plan. Options vest over varying periods up to four years and are restricted as to exercise except upon the occurrence of certain events, including an initial public offering of the Company's common stock (see Note 12). All restrictions on options expire no more than seven years from the date of grant.

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, compensation expense for options awarded under the Plan in 1994, 1995, 1996, and the nine months ended September 30, 1996 and 1997, has been recognized using the intrinsic value method. The effect of recording compensation expense under the provisions of SFAS No. 123 would have had no effect on unaudited pro forma net income per share in any of the periods presented.

Information regarding the Plan is as follows:

| OPTION<br>SHARES | WEIGHTED<br>AVERAGE<br>EXERCISE<br>PRICE | WEIGHTED<br>AVERAGE<br>FAIR VALUE |
|------------------|--|-----------------------------------|
|------------------|--|-----------------------------------|

|                                      |           |        |        |
|--------------------------------------|-----------|--------|--------|
| Outstanding, January 1, 1994.....    | --        |        |        |
| Granted.....                         | 560,000   | \$2.86 | \$5.62 |
| Outstanding, December 31, 1994.....  | 560,000   | 2.86   |        |
| Granted.....                         | 240,000   | 3.98   | 2.38   |
| Forfeited.....                       | (300,000) | 3.17   |        |
| Outstanding, December 31, 1995.....  | 500,000   | 3.21   |        |
| Granted.....                         | 90,000    | 1.89   | 3.76   |
| Forfeited.....                       | (140,000) | 4.71   |        |
| Outstanding, December 31, 1996.....  | 450,000   | 2.48   |        |
| Granted.....                         | 349,000   | 5.05   | 3.35   |
| Outstanding, September 30, 1997..... | 799,000   | 3.60   |        |

F-12

PC CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

At September 30, 1997, no options were exercisable under the Plan. The following table summarizes the status of outstanding stock options as of September 30, 1997:

| EXERCISE PRICE | OPTIONS<br>OUTSTANDING | WEIGHTED-<br>AVERAGE<br>REMAINING<br>LIFE (YEARS) |
|----------------|------------------------|---|
| \$1.00         | 427,500                | 6.8   |
| \$5.00         | 135,000                | 9.2   |
| \$7.50         | 236,500                | 9.1   |

The fair value of options at the date of grant was estimated using the minimum value method. Risk-free interest rates and expected lives of option grants used in applying this pricing model were 6% and seven years, respectively, in 1994, 1995, 1996 and the nine months ended September 30, 1997.

The minimum value pricing method was designed to value readily tradable stock options with relatively short lives. The options granted to employees are not tradable and have contractual lives of up to ten years. Management believes that the assumptions used and the model applied to value the awards yields a reasonable estimate of the fair value of the grants made under the circumstances, given the alternatives available under SFAS No. 123.

Aggregate compensation expense, related to options granted at exercise prices less than fair value on the dates of grant, is being charged to expense ratably over seven years from the dates of grant (see Note 12). Compensation expense charged to operations totaled \$325, \$98, \$230, \$162, and \$785 in 1994, 1995, 1996, and the nine months ended September 30, 1996 and 1997, respectively (net of expense reversals related to forfeitures by terminated employees aggregating \$139 and \$49 in 1995 and 1996, respectively).

8. INCOME TAXES

The provision (benefit) for income taxes was (\$124), \$38 and \$252 for the years ended December 31, 1994, 1995 and 1996, respectively, and \$134 and \$429 for the nine months ended September 30, 1996 and 1997, respectively. These provisions are based on the state income tax obligations of the Company as an S Corporation. Certain items of income are recognized in different years for financial reporting and income tax purposes, and the Company has recorded

deferred tax assets for the state income tax effect of these differences. Deferred tax assets were \$269, \$221 and \$274 at December 31, 1995 and 1996 and September 30, 1997, respectively, and were included in prepaid expenses and other current assets.

Effective with the closing of the Company's proposed initial public offering (see Note 12), the Company's S Corporation election will automatically be terminated and the Company will then record the provision for income taxes as a C Corporation. The provision (benefit) for income taxes on a pro forma basis consisted of the following:

|                    | YEAR ENDED<br>DECEMBER 31, 1996 | NINE MONTHS ENDED<br>SEPTEMBER 30, 1997 |
|--------------------|---------------------------------|---|
|                    | -----                           | -----                                   |
| Currently payable: |                                 |   |
| Federal.....       | \$2,988                         | \$5,360                                 |
| State.....         | 349                             | 625                                     |
|                    | -----                           | -----                                   |
|                    | 3,337                           | 5,985                                   |
|                    | -----                           | -----                                   |
| Deferred:          |                                 |   |
| Federal.....       | (842)                           | (1,372)                                 |
| State.....         | (98)                            | (159)                                   |
|                    | -----                           | -----                                   |
|                    | (940)                           | (1,531)                                 |
|                    | -----                           | -----                                   |
|                    | \$2,397                         | \$4,454                                 |
|                    | =====                           | =====                                   |

F-13

PC CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

The components of the pro forma net deferred tax asset are as follows:

|   | DECEMBER 31,<br>1996 | SEPTEMBER 30,<br>1997 |
|---|----------------------|-----------------------|
|   | -----                | -----                 |
| Provisions for bad debts.....                                 | \$ 632               | \$ 1,472              |
| Inventory costs capitalized for tax purposes.....             | 371                  | 503                   |
| Inventory reserve.....  | 471                  | 879                   |
| Accumulated depreciation.....                                 | 379                  | 618                   |
| Compensation under non-statutory stock option agreements..... | 255                  | 561                   |
| Deductible expenses, primarily employee-benefit related.....  | 369                  | 466                   |
| Additional stockholder/officer compensation.....              | 491                  | --                    |
| Other liabilities.....  | (1,635)              | (1,725)               |
|   | -----                | -----                 |
| Deferred tax asset--net.....                                  | \$ 1,333             | \$ 2,774              |
|   | =====                | =====                 |

The reconciliation of the Company's pro forma income tax provision to the statutory federal tax rate is as follows:

|  | YEAR ENDED<br>DECEMBER 31,<br>1996 | NINE MONTHS ENDED<br>SEPTEMBER 30,<br>1997 |
|--|------------------------------------|--|
|  | -----                              | -----                                      |

|  |       |       |
|--|-------|-------|
| Statutory tax rate.....                      | 35.0% | 35.0% |
| State income taxes, net of federal benefit.. | 2.6   | 2.6   |
| Nondeductible expenses.....                  | 0.2   | 0.2   |
| Other--net.....                              | 1.2   | 1.2   |
|  | ----- | ----- |
| Effective income tax rate.....               | 39.0% | 39.0% |
|  | ===== | ===== |

As of September 30, 1997, the Company had no net operating loss carry forwards or other tax benefits available to offset future taxable income.

9. EMPLOYEE BENEFIT PLANS

The Company has a contributory profit-sharing plan covering all qualified employees. No contributions to the profit-sharing plan were made in 1994, 1995, 1996, or the nine months ended September 30, 1997 by the Company. The Company made matching contributions to an employee savings plan of approximately \$103, \$102, \$177, \$143, and \$148 in 1994, 1995, 1996, and the nine months ended September 30, 1996 and 1997, respectively.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

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

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

F-14

PC CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

Future aggregate minimum annual lease payments under these leases at September 30, 1997 are as follows:

| YEAR ENDING DECEMBER 31  | RELATED PARTIES | OTHERS  | TOTAL   |
|--------------------------|-----------------|---------|---------|
| -----                    | -----           | -----   | -----   |
| 1997 (3 months).....     | \$ 63           | \$ 264  | \$ 327  |
| 1998.....                | 251             | 774     | 1,025   |
| 1999.....                | 251             | 447     | 698     |
| 2000.....                | 251             | 447     | 698     |
| 2001.....                | 251             | --      | 251     |
| 2002 and thereafter..... | 1,238           | --      | 1,238   |
|                          | -----           | -----   | -----   |
|                          | \$2,305         | \$1,932 | \$4,237 |
|                          | =====           | =====   | =====   |

Total rent expense aggregated \$852, \$1,072, \$1,057, \$889, and \$1,029 for the years ended December 31, 1994, 1995, 1996, and the nine months ended September 30, 1996 and 1997, respectively, under the terms of the leases described above. Such amounts included \$341, \$298, \$111 (net of a \$200 lease termination payment received), \$231 and \$227 in 1994, 1995, 1996, and the nine months ended September 30, 1996 and 1997, respectively, paid to related parties.

Contingencies

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

financial position, results of operations and cash flows.

11. OTHER RELATED-PARTY TRANSACTIONS

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

|   | YEAR ENDED   |      |      | NINE MONTHS |       |
|---|--------------|------|------|-------------|-------|
|   | DECEMBER 31, |      |      | ENDED       |       |
|   | 1994         | 1995 | 1996 | 1996        | 1997  |
|   | ----         | ---- | ---- | -----       | ----- |
| Revenue:  |              |      |      |             |       |
| Provision of management and other services to various affiliated companies..... | \$49         | \$78 | \$-- | \$ --       | \$ -- |
| Sales of various products.....  | 39           | 48   | 37   | 25          | 9     |
| Rental of property and equipment to affiliated company.....                     | 186          | --   | --   | --          | --    |
| Sales of property and equipment:  |              |      |      |             |       |
| Net book value.....   | (77)         | (30) | --   | --          | (14)  |
| Proceeds.....   | 102          | 33   | 19   | --          | 1     |
| Costs:  |              |      |      |             |       |
| Purchase of services from affiliated companies.....                             | 278          | 80   | 763  | 377         | 1,163 |
| Interest paid to stockholders.....  | 74           | 4    | --   | --          | --    |

During 1994, the Company transferred to its stockholders certain patents, patent application rights and related proprietary materials related to certain technologies then under development by the Company. The carrying value of these assets at the time of transfer was nil as all related costs had been expensed as incurred. Research and development costs related to these activities and expensed by the Company during the year ended December 31, 1994, aggregated approximately \$1,065. All development activities related to these technologies

F-15

PC CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

were assumed, effective January 1, 1995, by a new affiliate organized by the Company's stockholders. The Company did not incur any research and development costs during the years ended December 31, 1995 and 1996 and the nine months ended September 30, 1996 and 1997.

12. SUBSEQUENT EVENTS

Initial Public Offering (unaudited)

The Company is pursuing an initial public offering of its common stock. The Company plans to use a portion of the net proceeds of the Offering to repay certain of the Company's bank borrowings under its revolving credit agreement and term note payable (Note 5) and to make a distribution to current stockholders in an amount equal to the Company's cumulative undistributed tax basis S Corporation retained earnings at the closing date of the Offering. Had the closing date of the Offering occurred on September 30, 1997, the dividend payable to the stockholders would have been approximately \$26,000. Such dividend payable has been reflected in the pro forma balance sheet as of September 30, 1997.

Recapitalization of the Company (unaudited)

The Company expects to amend and restate its Articles of Incorporation immediately prior to the consummation of the Offering. Pursuant to this amendment, the Company will convert all of the issued and outstanding shares of

Series A Non-Voting Common Stock, \$.01 par value per share, and Series B Voting Common Stock, \$.01 par value per share, into shares of a single series of voting Common Stock, \$.01 par value.

#### Amendment of Revolving Credit Agreement

As of November 19, 1997, the Company and its banks amended its revolving credit agreement to increase the maximum level of borrowings under the agreement from \$30,000 to \$45,000 and to reduce the interest rate on borrowings under both loans to the prime rate.

#### Operating Lease Commitment

In November 1997, the Company entered into a fifteen-year operating lease for a new corporate headquarters with an affiliated company related to the Company through common ownership. The Company expects to occupy the facility in the Summer of 1998, and the lease will be effective upon the date of occupancy. Annual rent expense under the terms of the lease, as amended on December 29, 1997, will be approximately \$823 for the first five years of the lease, increasing to \$926 for years six through ten and \$1,000 for years eleven through fifteen.

#### Compensation Under Non-Statutory Stock Option Agreements

Upon consummation of the Offering, certain restrictions as to the exercise of options granted under the Company's 1993 Incentive and Non-Statutory Stock Option Plan will expire. The Company is currently recording compensation expense for certain options granted at prices less than their fair value ratably over seven years from the dates granted, since such options are not exercisable except upon occurrence of certain events (see Note 7). Effective with the consummation of the Offering, the Company will record an additional one-time charge for stock-option compensation expense of approximately \$665, representing the cumulative effect of recording compensation expense relating to these options over their vesting periods.

#### Termination of S Corporation Election

Effective with the consummation of the Offering, the Company's S Corporation election will automatically terminate and the Company expects to record a tax benefit of approximately \$2,500 relating to the establishment of net deferred assets for future tax deductions resulting from the termination of the S Corporation election.

F-16

PC CONNECTION, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

#### 1997 Employee Stock Purchase Plan

On November 21, 1997, the Board of Directors adopted and the stockholders approved the 1997 Employee Stock Purchase Plan ("the Purchase Plan"), which becomes effective on the closing of the Offering. The Purchase Plan authorizes the issuance of Common Stock to participating employees. Under the terms of the Purchase Plan, the option price is an amount equal to 85% of the fair market value per share of the Common Stock on either the first day or the last day of the offering period, whichever is lower.

#### 1997 Stock Incentive Plan

On November 21, 1997, the Board of Directors adopted and the stockholders approved the 1997 Stock Incentive Plan, providing for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, performance shares and awards of restricted stock and unrestricted stock.

\* \* \* \* \*

F-17

INSIDE BACK COVER

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[ACROSS THE TOP OF THE PAGE:  
PICTURE OF THE RACCOON CHARACTER(R) WITH AWARDS AROUND ITS NECK TO THE  
LEFT AND THE TEXT "PC CONNECTION YOUR SOURCE FOR COMPUTERS, SOFTWARE  
AND PERIPHERALS SINCE 1982"]

[AT LEFT CENTER OF PAGE:  
CAPTION ABOVE PICTURE: DISTRIBUTION CENTER  
PICTURE OF INDIVIDUALS PACKING PRODUCTS TO FILL ORDERS AT THE  
DISTRIBUTION CENTER.  
CAPTION BELOW PICTURE: CUSTOMERS CAN PLACE THEIR ORDERS FOR PRODUCTS  
UNTIL 2:45 A.M. ET AND STILL GET OVERNIGHT DELIVERY.]

[AT MIDDLE CENTER OF PAGE:  
CAPTION ABOVE PICTURE: SALES TEAM  
PICTURE OF SALES PEOPLE AT THE CALL CENTER TAKING CALLS.  
CAPTION BELOW PICTURE: PC CONNECTION SERVICES CUSTOMERS FROM ITS CALL  
CENTERS LOCATED IN KEENE, HUDSON AND MILFORD, NEW HAMPSHIRE.]

[AT RIGHT CENTER OF PAGE:  
CAPTION ABOVE PICTURE: DATA CENTER  
PICTURE OF COMPANY MANAGEMENT INFORMATION COMPUTER SYSTEMS.  
CAPTION BELOW PICTURE: THE COMPANY'S MARKETING AND SALES ACTIVITIES ARE  
SUPPORTED BY MULTIPLE IBM AS/400 AND RS6000 COMPUTERS, PLUS WINDOWS NT-  
BASED SERVERS.]

[ACROSS THE BOTTOM OF THE PAGE:  
15 YEARS OF MAIL-ORDER EXPERIENCE]

[UNDER CAPTION LEFT COLUMN LISTS THE FOLLOWING:

1982 PC CONNECTION FOUNDED EXCLUSIVELY  
TO SERVE THE IBM PC CUSTOMER.

1984 MACCONNECTION DIVISION FOUNDED  
EXCLUSIVELY TO SERVE THE APPLE  
MACINTOSH CUSTOMER.

1987 EVERYTHING OVERNIGHT.(R) CUSTOMER  
ORDERS PLACED UP TO 8 P.M. ET ARE  
DELIVERED THE NEXT DAY.

1989 30-DAY MONEY-BACK GUARANTEES  
OFFERED ON MOST PRODUCT LINES.]

[RIGHT COLUMN LISTS THE FOLLOWING:

1990 EVERYTHING OVERNIGHT(R) SERVICE  
EXTENDED TO 2:45 A.M. ET, INCLUDING  
DELIVERY ON SATURDAY.

1991 ONE-MINUTE MAIL ORDER.(R) NEW CALLER  
ID APPLICATIONS SPEED ORDER TAKING.  
ORDERS PLACED ON WEEKENDS ARE DELIVERED  
MONDAY MORNING.

1993 COMPUTERS CUSTOM-CONFIGURED AT NO  
ADDITIONAL CHARGE; ORDERS PLACED BY  
MIDNIGHT ARE DELIVERED THE NEXT DAY.

1996 PC CONNECTION ONLINE SUPERSTORE DEBUTS  
ON THE WEB.]

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-----  
  
NO DEALER, SALES PERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY  
INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS  
PROSPECTUS IN CONNECTION WITH THE OFFERING COVERED BY THIS PROSPECTUS, AND, IF  
GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS  
HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. THIS PROSPECTUS  
DOES NOT CONSTITUTE AN OFFER TO SELL, OR THE SOLICITATION OF AN OFFER TO BUY,

THE COMMON STOCK IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS NOT BEEN ANY CHANGE IN THE FACTS SET FORTH IN THIS PROSPECTUS OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

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 TABLE OF CONTENTS

|   | PAGE |
|---|------|
| Prospectus Summary.....   | 3    |
| Risk Factors.....   | 7    |
| Use of Proceeds.....  | 13   |
| Dividend Policy.....  | 13   |
| Capitalization.....   | 14   |
| Dilution.....   | 15   |
| Selected Financial Data.....  | 16   |
| Management's Discussion and Analysis of Financial Condition and Results<br>of Operations..... | 18   |
| Business.....   | 25   |
| Management.....   | 34   |
| Certain Transactions.....   | 41   |
| Principal Stockholders.....   | 43   |
| Description of Capital Stock.....   | 44   |
| Shares Eligible for Future Sale.....  | 45   |
| Underwriting.....   | 47   |
| Legal Matters.....  | 48   |
| Experts.....  | 48   |
| Additional Information.....   | 48   |
| Index to Financial Statements.....  | F-1  |

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 UNTIL , 1998 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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SHARES

PC CONNECTION, INC.

COMMON STOCK

DONALDSON, LUFKIN & JENRETTE  
 SECURITIES CORPORATION

NATIONSBANC MONTGOMERY  
 SECURITIES, INC.

WILLIAM BLAIR & COMPANY

, 1998

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than the underwriting discount, payable by the Registrant in connection with the sale of Common Stock being registered. All amounts are estimates except the SEC registration fee and the NASD filing fee.

|   | AMOUNT TO BE<br>PAID |
|---|----------------------|
| SEC registration fee.....               | \$17,425             |
| NASD filing fee.....                    | \$ 6,250             |
| Nasdaq National Market Listing Fee..... | \$ *                 |
| Blue Sky fees and expenses.....         | \$ *                 |
| Printing and engraving expenses.....    | \$ *                 |
| Legal fees and expenses.....            | \$ *                 |
| Accounting fees and expenses.....       | \$ *                 |
| Transfer agent and registrar fees.....  | \$ *                 |
| Miscellaneous expenses.....             | \$ *                 |
|   | -----                |
| Total.....                              | \$<br>=====          |

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\* To be filed by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article ELEVENTH of the Registrant's Amended and Restated Articles of Incorporation (the "Restated Articles") provides that no director or officer of the Registrant shall be personally liable to the Registrant or its stockholders for monetary damages for any action taken, or any failure to take any action, as a director or an officer, except with respect to: (a) the amount of a financial benefit received by the director or officer to which he is not entitled; (b) an intentional infliction of harm on the Registrant or its stockholders; (c) a violation of New Hampshire Revised Statutes Annotated ("RSA") 293-A:8.33 (providing for liability for the approval of payment of certain unlawful dividends to stockholders); or (d) an intentional violation of criminal law.

RSA 293-A:8.51 and 8.56 empower a corporation, subject to certain limitations, to indemnify its directors and officers against expenses (including attorney's fees, judgments, fines and amounts paid in settlement) actually and reasonably incurred by them in connection with any civil or criminal suit or proceeding (other than a derivative action) to which they are parties or threatened to be made parties by reason of being directors or officers, if they acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation (and with respect to any criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful). The power to indemnify in connection with an action or suit by or in the right of the corporation (a derivative action) is more limited. Indemnification against expenses actually and reasonably incurred is required if a director or officer is wholly successful in defense of an action, suit or proceeding of the type where indemnity is permitted by the statute. Unless ordered by a court, indemnification under the statute, other than mandatory indemnification against expenses, may be made only if a determination that indemnification is proper has been made by a prescribed vote of the board of directors, special legal counsel in certain cases, by the stockholders or by the prescribed vote of a committee duly designated by the board of directors, in certain cases. Indemnification provided for by RSA 293-A:8.50-8.58 is not exclusive and a corporation is empowered to maintain

insurance on behalf of its directors and officers against any liability asserted against them in that capacity, whether or not the corporation would have the power under the RSA to indemnify them.

Article TWELFTH of the Restated Articles provides that the Registrant shall indemnify any director or officer to the fullest extent permitted by RSA 293-A:8.50-8.58. The Company maintains insurance on behalf of its directors and officers against liability asserted against them in that capacity.

II-1

Under Section 7 of the Underwriting Agreement, the Underwriters are obligated, under certain circumstances, to indemnify the directors and officers of the Registrant against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). Reference is made to the form of Underwriting Agreement filed as Exhibit 1.1 hereto.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

Not applicable.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

- 1.1 Form of Underwriting Agreement.
- \*3.1 Restated Articles of Incorporation of Registrant as currently in effect.
- \*\*3.2 Form of Restated Articles of Incorporation of Registrant to be filed on or immediately subsequent to the date of the closing of the Offering contemplated by this Registration Statement.
- \*3.3 Bylaws of Registrant, as amended to date.
- \*\*3.4 Form of Bylaws of Registrant to be effective on or immediately subsequent to the date of the closing of the Offering contemplated by this Registration Statement.
- \*\*4.1 Form of Registrant's Stock Certificate.
- \*\*5.1 Opinion of Hale and Dorr LLP
- \*10.1 1993 Incentive and Non-statutory Stock Option Plan, as amended.
- \*\*10.2 1997 Stock Incentive Plan.
- \*10.3 Lease between the Registrant and Miller-Valentine Partners, dated September 24, 1990, as amended, for property located at 2870 Old State Route 73, Wilmington, Ohio.
- \*10.4 Lease between the Registrant and Lower Bellbrook Company, dated September 26, 1997, for property located at 643-651 Lower Bellbrook Avenue, Xenia, Ohio.
- \*10.5 Lease between the Registrant and Gallup & Hall partnership, dated May 1, 1997, for property located at 442 Marlboro Street, Keene, New Hampshire.
- \*10.6 Lease between the Registrant and Gallup & Hall partnership, dated June 1, 1987, as amended, for property located in Marlow, New Hampshire.
- \*10.7 Lease between the Registrant and Gallup & Hall partnership, dated July 22, 1988, for property located at 450 Marlboro Street, Keene, New Hampshire.
- \*10.8 Lease between the Registrant and Dataproducts Corporation, dated June 22, 1993, as amended, for property located at 582 Route 13 South, Milford, New Hampshire.
- \*10.9 Lease between the Registrant and Century Park, LLC, dated October 1, 1997 for property located at Route 111, Hudson, New Hampshire.
- 10.10 Amended and Restated Lease between the Registrant and G&H Post, LLC, dated December 29, 1997 for property located at Route 101A, Merrimack, New Hampshire.
- \*10.11 Sublease between the Registrant and ABX Air Inc., dated June 7, 1995, for property located at 2870 Old State Route 73, Wilmington, Ohio.
- \*10.12 Employment Agreement between the Registrant and Wayne L. Wilson, dated August 16, 1995.
- \*10.13 Employment Agreement between the Registrant and Robert F. Wilkins, dated December 23, 1995.
- \*10.14 Letter Agreement between the Registrant and R. Wayne Roland, dated March 4, 1997.
- \*+10.15 Letter Agreement between the Registrant and Airborne Freight

Corporation D/B/A "Airborne Express," dated April 30, 1990, as amended.

II-2

- \*+10.16 Agreement between the Registrant and Ingram Micro, Inc., dated October 30, 1997, as amended.
- 10.17 State Street Bank and Trust Company Revolving Line of Credit and Term Loan, dated March 31, 1997, as amended.
- 10.18 Employment Agreement, dated as of January 1, 1998, between the Registrant and Patricia Gallup.
- 10.19 Employment Agreement, dated as of January 1, 1998, between the Registrant and David Hall.
- \*\*11.1 Statement regarding weighted average share computation.
- 23.1 Consent of Deloitte & Touche LLP.
- \*\*23.2 Consent of Hale and Dorr LLP (included in Exhibit 5.1).
- \*24.1 Power of Attorney (see page II-4).
- \*27.1 Financial Data Schedule

- -----  
\* Previously filed.

\*\* To be filed by amendment.

+ Confidential materials omitted and filed separately with the Securities and Exchange Commission.

(b) Financial Statement Schedules

Not applicable.

Schedules not listed have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions contained in the Restated Articles of Incorporation or the RSA or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

The Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of a Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities

offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

II-3

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant, PC Connection, Inc., a corporation organized and existing under the laws of the State of New Hampshire, has duly caused this Amendment to Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Milford, State of New Hampshire, on this 14th day of January, 1998.

PC Connection, Inc.

/s/ Patricia Gallup  
By \_\_\_\_\_  
Patricia Gallup  
Chairman of the Board, President  
and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

| Signature  | Title  | Date                |
|--|--|---------------------|
| <u>/s/ Patricia Gallup*</u><br>Patricia Gallup         | Chairman of the Board,<br>President and Chief<br>Executive Officer<br>(principal executive<br>officer)                                 | January 14,<br>1998 |
| <u>/s/ Wayne L. Wilson*</u><br>Wayne L. Wilson         | Senior Vice President,<br>Chief Operating Officer<br>and Chief Financial<br>Officer (principal<br>financial and accounting<br>officer) | January 14,<br>1998 |
| <u>/s/ David Hall*</u><br>David Hall                   | Vice Chairman of the Board   | January 14,<br>1998 |
| <u>/s/ David Beffa-Negrini*</u><br>David Beffa-Negrini | Director   | January 14,<br>1998 |
| <u>/s/ Martin C. Murrer*</u><br>Martin C. Murrer       | Director   | January 14,<br>1998 |
| <u>/s/ Peter J. Baxter*</u><br>Peter J. Baxter         | Director   | January 14,<br>1998 |

\*By \_\_\_\_\_

Wayne L. Wilson  
Attorney-in-fact

II-4

EXHIBIT INDEX

EXHIBITS

PAGE

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- \*3.1 Restated Articles of Incorporation of Registrant as currently in effect.
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- \*3.3 Bylaws of Registrant, as amended to date.
- \*\*3.4 Form of Bylaws of Registrant to be effective on or immediately subsequent to the date of the closing of the Offering contemplated by this Registration Statement.
- \*\*4.1 Form of Registrant's Stock Certificate.
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- \*\*23.2 Consent of Hale and Dorr LLP (included in Exhibit 5.1).
- \*24.1 Power of Attorney (see page II-4).
- \*27.1 Financial Data Schedule

- -----  
 \* Previously filed.

\*\* To be filed by amendment.

+ Confidential materials omitted and filed separately with the Securities and Exchange Commission.

L&W REVISED DRAFT  
JANUARY 12, 1998

\_\_\_\_\_ Shares  
PC CONNECTION, INC.  
Common Stock  
UNDERWRITING AGREEMENT  
-----

\_\_\_\_\_, 1998

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
NATIONSBANC MONTGOMERY SECURITIES, INC.  
WILLIAM BLAIR & COMPANY, L.L.C.

As representatives (the "Representatives") of the  
several Underwriters  
named in Schedule I hereto  
c/o Donaldson, Lufkin & Jenrette  
Securities Corporation ("DLJ")  
277 Park Avenue  
New York, New York 10172

Dear Sirs:

PC Connection, Inc., a [Delaware] corporation (the "COMPANY"),  
proposes to issue and sell \_\_\_\_\_ shares of its Common Stock, par value  
\$0.01 per share (the "FIRM SHARES"), to the several underwriters named in  
Schedule I hereto (the "UNDERWRITERS"). The Company also proposes to issue and  
sell to the several Underwriters not more than an additional \_\_\_\_\_  
shares of its Common Stock, par value \$0.01 per share (the "ADDITIONAL SHARES"),  
if requested by the Underwriters as provided in Section 2 hereof. The Firm  
Shares and the Additional Shares are hereinafter referred to collectively as the  
"SHARES". The shares of common stock of the Company to be outstanding after  
giving effect to the sales contemplated hereby are hereinafter referred to as  
the "COMMON STOCK".

Section 1. Registration Statement and Prospectus.

The Company has prepared and filed with the Securities and Exchange  
Commission (the "COMMISSION") in accordance with the provisions of the  
Securities Act of 1933, as amended, and the rules and regulations of the  
Commission thereunder (collectively, the "ACT"), a registration statement on  
Form S-1, including a prospectus, relating to the Shares. The registration  
statement, as amended at the time it became effective, including the information  
(if any) deemed to be part of the registration statement at the time of  
effectiveness pursuant to Rule

430A under the Act, is hereinafter referred to as the "REGISTRATION STATEMENT";  
and the prospectus in the form first used to confirm sales of Shares (whether or  
not filed with the Commission pursuant to Rule 424(b) under the Act) is  
hereinafter referred to as the "PROSPECTUS". If the Company has filed or is  
required pursuant to the terms hereof to file a registration statement pursuant  
to Rule 462(b) under the Act registering additional shares of Common Stock (a  
"RULE 462(b) REGISTRATION STATEMENT"), then, unless otherwise specified, any  
reference herein to the term "Registration Statement" shall be deemed to include  
such Rule 462(b) Registration Statement.

Section 2. Agreements to Sell and Purchase and Lock-Up Agreements.

On the basis of the representations and warranties contained in this  
Agreement, and subject to its terms and conditions, the Company agrees to issue

and sell, and each Underwriter agrees, severally and not jointly, to purchase from the Company at a price per Share of \$\_\_\_\_\_ (the "PURCHASE PRICE") the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto.

On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Company agrees to sell the Additional Shares and the Underwriters shall have the right to purchase, severally and not jointly, up to \_\_\_\_\_ Additional Shares from the Company at the Purchase Price. Additional Shares may be purchased solely for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. The Underwriters may exercise their right to purchase Additional Shares in whole or in part at any time, from time to time, by giving written notice thereof to the Company within 30 days after the date of this Agreement. The Representatives shall give any such notice on behalf of the Underwriters and such notice shall specify the aggregate number of Additional Shares to be purchased pursuant to such exercise and the date for payment and delivery thereof, which date shall be a business day (i) no earlier than two business days after such notice has been given (and, in any event, no earlier than the Closing Date (as hereinafter defined)) and (ii) no later than ten business days after such notice has been given. If any Additional Shares are to be purchased, each Underwriter, severally and not jointly, agrees to purchase from the Company the number of Additional Shares (subject to such adjustments to eliminate fractional shares as the Representatives may determine) which bears the same proportion to the total number of Additional Shares to be purchased from the Company as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I bears to the total number of Firm Shares.

The Company hereby agrees not to (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any Common Stock (regardless of whether any of the transactions described in clause (i) or (ii) is to be settled by the delivery of Common Stock, or such other securities, in cash or otherwise), except to the Underwriters pursuant to this Agreement, for a period of 180 days after the date of the Prospectus without the prior written consent of DLJ. Notwithstanding the foregoing, during such period (i) the

-2-

Company may grant stock options pursuant to the Company's stock option plans and (ii) the Company may issue shares of Common Stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date hereof. The Company also agrees not to file any registration statement with respect to any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock for a period of 180 days after the date of the Prospectus without the prior written consent of DLJ; provided, however, that during such period the Company may file one or more registration statements on Form S-8 and/or Form S-3 registering shares of Common Stock acquired or to be acquired pursuant to the Company's stock option plans. The Company shall, prior to or concurrently with the execution of this Agreement, deliver an agreement executed by (i) each of the directors and officers of the Company, (ii) each stockholder listed on Annex I hereto and (iii) each holder of stock options listed on Annex I hereto to the effect that such person will not, during the period commencing on the date such person signs such agreement and ending 180 days after the date of the Prospectus, without the prior written consent of DLJ, (A) engage in any of the transactions described in the first sentence of this paragraph or (B) make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock.

### Section 3. Terms of Public Offering.

The Company is advised by the Representatives that the Underwriters propose (i) to make a public offering of their respective portions of the Shares as soon after the execution and delivery of this Agreement as in their judgment is advisable and (ii) initially to offer the Shares upon the terms set forth in the Prospectus.

### Section 4. Delivery and Payment.

Delivery to the Underwriters of and payment for the Firm Shares shall be made at 9:00 A.M., New York City time, on \_\_\_\_\_, 1998 (the "CLOSING DATE") at the offices of Hale & Dorr LLP, 60 State Street, Boston, Massachusetts. The Closing Date and the location of delivery of and payment for the Firm Shares may be varied by agreement between the Representatives and the Company.

Delivery to the Underwriters of and payment for any Additional Shares to be purchased by the Underwriters shall be made at the offices of Hale & Dorr, LLP, 60 State Street, Boston, Massachusetts or at such other place as the Representatives shall designate at 9:00 A.M., New York City time, on the date specified in the applicable exercise notice given by the Representatives pursuant to Section 2 (an "OPTION CLOSING DATE"). Any such Option Closing Date and the location of delivery of and payment for such Additional Shares may be varied by agreement between the Representatives and the Company.

Certificates for the Shares shall be registered in such names and issued in such denominations as the Representatives shall request in writing not later than two full business days prior to the Closing Date or an Option Closing Date, as the case may be. Such certificates shall be made available to the Representatives for inspection not later than 9:30 A.M., New York City time, on the business day prior to the Closing Date or the applicable Option Closing Date, as the case may be. Certificates in definitive form evidencing the Shares shall be delivered to the

-3-

Representatives on the Closing Date or the applicable Option Closing Date, as the case may be, with any transfer taxes thereon duly paid by the Company, for the respective accounts of the several Underwriters, against payment to the Company of the Purchase Price therefor by wire transfer of Federal or other funds immediately available in New York City.

#### Section 5. Agreements of the Company.

The Company agrees with the Representatives:

(a) To advise the Representatives promptly and, if requested by the Representatives, to confirm such advice in writing, (i) of any request by the Commission for amendments to the Registration Statement or amendments or supplements to the Prospectus or for additional information, (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the suspension of qualification of the Shares for offering or sale in any jurisdiction, or the initiation of any proceeding for such purposes, (iii) when any amendment to the Registration Statement becomes effective, (iv) if the Company is required to file a Rule 462(b) Registration Statement after the effectiveness of this Agreement, when the Rule 462(b) Registration Statement has become effective and (v) of the happening of any event during the period referred to in Section 5(d) below which makes any statement of a material fact made in the Registration Statement or the Prospectus untrue or which requires any additions to or changes in the Registration Statement or the Prospectus in order to make the statements therein not misleading. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, the Company will use its best efforts to obtain the withdrawal or lifting of such order at the earliest possible time.

(b) To furnish to the Representatives four signed copies of the Registration Statement as first filed with the Commission and of each amendment to it, including all exhibits, and to furnish to the Representatives and each Underwriter designated by the Representatives such number of conformed copies of the Registration Statement as so filed and of each amendment to it, without exhibits, as the Representatives may reasonably request.

(c) To prepare the Prospectus, the form and substance of which shall be satisfactory to the Representatives, and to file the Prospectus in such form with the Commission within the applicable period specified in Rule 424(b) under the Act; during the period specified in Section 5(d) below, not to file any further amendment to the Registration Statement and not to make any amendment or supplement to the Prospectus of which the Representatives shall not previously have been advised or to which the Representatives shall reasonably object after being so advised; and, during such period, to prepare and file with the Commission, promptly upon the Representatives' reasonable request, any amendment to the Registration Statement or amendment or supplement to the Prospectus which



may be legally required or reasonably advisable in connection with the distribution of the Shares by the Underwriters, and to use its best efforts to cause any such amendment to the Registration Statement to become promptly effective.

(d) Prior to 10:00 A.M., New York City time, on the first business day after the date of this Agreement and from time to time thereafter for such period as in the opinion of

-4-

counsel for the Underwriters a prospectus is required by law to be delivered in connection with sales by an Underwriter or a dealer, to furnish in New York City to each Underwriter and any dealer as many copies of the Prospectus (and of any amendment or supplement to the Prospectus) as such Underwriter or dealer may reasonably request.

(e) If during the period specified in Section 5(d), any event shall occur or condition shall exist as a result of which, in the opinion of counsel for the Underwriters, it becomes necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare and file with the Commission an appropriate amendment or supplement to the Prospectus so that the statements in the Prospectus, as so amended or supplemented, will not in the light of the circumstances when it is so delivered, be misleading, or so that the Prospectus will comply with applicable law, and to furnish to each Underwriter and to any dealer as many copies thereof as such Underwriter or dealer may reasonably request.

(f) Prior to any public offering of the Shares, to cooperate with the Representatives and counsel for the Underwriters in connection with the registration or qualification of the Shares for offer and sale by the several Underwriters and by dealers under the state securities or Blue Sky laws of such jurisdictions as the Underwriters may request, to continue such registration or qualification in effect so long as required for distribution of the Shares and to file such consents to service of process or other documents as may be necessary in order to effect such registration or qualification; provided, however, that the Company shall not be required in connection therewith to qualify as a foreign corporation in any jurisdiction in which it is not now so qualified or to take any action that would subject it to general consent to service of process or taxation other than as to matters and transactions relating to the Prospectus, the Registration Statement, any preliminary prospectus or the offering or sale of the Shares, in any jurisdiction in which it is not now so subject.

(g) To mail and make generally available to its stockholders as soon as practicable an earnings statement covering the twelve-month period ending \_\_\_\_\_, 1999 that shall satisfy the provisions of Section 11(a) of the Act, and to advise the Representatives in writing when such statement has been so made available.

(h) During the period of three years after the date of this Agreement, to furnish to the Representatives promptly upon their becoming available copies of all reports or other communications furnished to the record holders of Common Stock or furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed and such other publicly available information concerning the Company and its subsidiaries (if any) as the Representatives may reasonably request.

(i) Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, to pay or cause to be paid all expenses incident to the performance of its obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company's counsel and the Company's accountants in connection with the registration and delivery of the Shares under the Act and all other fees and expenses in

-5-

connection with the preparation, printing, filing and distribution of the Registration Statement (including financial statements and exhibits), any preliminary prospectus, the Prospectus and all amendments and supplements to any

of the foregoing, including the mailing and delivering of copies thereof to the Underwriters and dealers in the quantities specified herein, (ii) all costs and expenses related to the transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) all costs of printing or producing this Agreement and any other agreements or documents in connection with the offering, purchase, sale or delivery of the Shares, (iv) all expenses in connection with the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of the several states and all costs of printing or producing any Preliminary and Supplemental Blue Sky Memoranda in connection therewith (including the filing fees and fees and disbursements of counsel for the Underwriters in connection with such registration or qualification and memoranda relating thereto), (v) the filing fees and disbursements of counsel for the Underwriters in connection with the review and clearance of the offering of the Shares by the National Association of Securities Dealers, Inc., (vi) all fees and expenses in connection with the preparation and filing of the registration statement on Form 8-A relating to the Common Stock and all costs and expenses incident to the quotation of the Shares on the Nasdaq National Market, (vii) the cost of printing certificates representing the Shares, (viii) the costs and charges of any transfer agent, registrar and/or depository for the Shares, and (ix) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section.

(j) To use its best efforts to qualify for quotation the Shares on the Nasdaq National Market and to maintain the quotation of the Shares on the Nasdaq National Market for a period of three years after the date of this Agreement.

(k) To use its best efforts to do and perform all things required or necessary to be done and performed under this Agreement by the Company prior to the Closing Date or any Option Closing Date, as the case may be, and to satisfy all conditions precedent to the delivery of the Shares.

(l) To not issue any shares of Common Stock upon the exercise of options issued pursuant to the Company's 1993 Incentive and Non-Statutory Stock Option Plan (the "1993 Option Plan") for a period of 180 days after the date of the Prospectus, unless and until the holder exercising such option shall have delivered to the Representatives a lock-up agreement with respect to the shares issuable upon the exercise of such option in form and substance reasonably satisfactory to DLJ, provided, however, that the Company shall only be required to use all commercially reasonable efforts to obtain a lock-up agreement from Mr. Kenneth Ratcliffe if he elects to exercise all or any portion of his option to purchase 87,500 shares of Common Stock granted to Mr. Ratcliffe under the 1993 Option Plan pursuant to the Non-Statutory Stock Option Agreement, dated April 11, 1994, between the Company and Mr. Ratcliffe.

(m) If the Registration Statement at the time of the effectiveness of this Agreement does not cover all of the Shares, to file a Rule 462(b) Registration Statement with the Commission registering the Shares not so covered in compliance with Rule 462(b) by 10:00 P.M., New York City time, on the date of this Agreement and to pay to the Commission the filing fee for such Rule 462(b) Registration Statement at the time of the filing thereof or to give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act.

-6-

Section 6. Representations and Warranties of the Company.

The Company represents and warrants to each Underwriter that:

(a) The Registration Statement has become effective (other than any Rule 462(b) Registration Statement to be filed by the Company after the effectiveness of this Agreement); any Rule 462(b) Registration Statement filed after the effectiveness of this Agreement will become effective no later than 10:00 P.M., New York City time, on the date of this Agreement; and no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or threatened by the Commission.

(b) (i) The Registration Statement (other than any Rule 462(b) Registration Statement to be filed by the Company after the effectiveness of this Agreement), when it became effective, did not contain and, as amended, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) the Registration Statement (other than any Rule 462(b) Registration Statement to be filed by the Company after the

effectiveness of this Agreement) and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Act, (iii) if the Company is required to file a Rule 462(b) Registration Statement after the effectiveness of this Agreement, such Rule 462(b) Registration Statement and any amendments thereto, when they become effective (A) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (B) will comply in all material respects with the Act and (iv) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in the Registration Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use therein.

(c) Each preliminary prospectus filed as part of the registration statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Act, complied when so filed in all material respects with the Act, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph do not apply to statements or omissions in any preliminary prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use therein.

(d) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation and has the corporate power and authority to carry on its business as described in the Prospectus and to own, lease and operate its properties, and is duly qualified and is in good standing as a foreign corporation authorized to do business in each jurisdiction in which the nature of its business or

-7-

its ownership or leasing of property requires such qualification, except where the failure to be so qualified would not have a material adverse effect on the business, prospects, financial condition or results of operations of the Company (a "MATERIAL ADVERSE EFFECT").

(e) There are no outstanding subscriptions, rights, warrants, options, calls, convertible securities, commitments of sale or liens granted or issued by the Company relating to or entitling any person to purchase or otherwise to acquire any shares of the capital stock of the Company, except as otherwise disclosed in the Registration Statement.

(f) All the outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid, non-assessable and not subject to any preemptive or similar rights; and the Shares have been duly authorized and, when issued and delivered to the Underwriters against payment therefor as provided by this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights.

(g) The Company has no subsidiaries.

(h) On or prior to the Closing Date, the Company will have reincorporated as a Delaware corporation with all corporate power and authority necessary to consummate all of the transactions contemplated by this Agreement and the Prospectus, including, without limitation, the corporate power and authority to duly authorize and validly issue all of the shares of capital stock necessary to consummate the Offering in the manner contemplated by the Prospectus

(i) The authorized capital stock of the Company conforms to the description thereof contained in the Prospectus in all material respects.

(j) The Company is not (i) in violation of its charter or by-laws or (ii) in default in the performance of any obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument to which the Company is a party or by which the Company

or its property is bound where, in the case of this clause (ii), such default would have a Material Adverse Effect.

(k) The execution, delivery and performance of this Agreement by the Company, the compliance by the Company with all the provisions hereof and the consummation of the transactions contemplated hereby will not (i) except as may be disclosed in the Prospectus, require any consent, approval, authorization or other order of, or qualification with, any court or governmental body or agency (except such as may be required under the securities or Blue Sky laws of the various states), (ii) conflict with or constitute a breach of any of the terms or provisions of, or a default under, the charter or by-laws of the Company or, except as may be disclosed in the Prospectus, any indenture, loan agreement, mortgage, lease or other agreement or instrument, to which the Company is a party or by which the Company or its property is bound where such conflict, breach or default would have a Material Adverse Effect, (iii) except as may be disclosed in the Prospectus, violate or conflict with any applicable law or any rule, regulation, judgment, order or decree of any court or any governmental body or agency having jurisdiction over the

-8-

Company or its property where such violation or conflict would have a Material Adverse Effect or (iv) result in the suspension, termination or revocation of any Authorization (as defined below) of the Company or any other material impairment of the rights of the holder of any such Authorization.

(l) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened to which the company is or is reasonably likely to be a party or to which any of its property is or is reasonably likely to be subject that are required to be described in the Registration Statement or the Prospectus and are not so described; nor are there any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed as required.

(m) The Company has not violated any foreign, federal, state or local law or regulation relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("ENVIRONMENTAL LAWS") or any provisions of the Employee Retirement Income Security Act of 1974, as amended, or the rules and regulations promulgated thereunder, except for such violations which, singly or in the aggregate, would not have a Material Adverse Effect.

(n) The Company has such permits, licenses, consents, exemptions, franchises, authorizations and other approvals (each, an "AUTHORIZATION") of, and has made all filings with and notices to, all governmental or regulatory authorities and self-regulatory organizations and all courts and other tribunals, including, without limitation, under any applicable Environmental Laws, as are necessary to own, lease, license and operate its respective properties and to conduct its business, except where the failure to have any such Authorization or to make any such filing or notice would not, singly or in the aggregate, have a Material Adverse Effect. Each such Authorization is valid and in full force and effect and the Company is in compliance in all material respects with all the terms and conditions thereof and with the rules and regulations of the authorities and governing bodies having jurisdiction with respect thereto; and no event has occurred (including, without limitation, the receipt of any notice from any authority or governing body) which allows or, after notice or lapse of time or both, would allow, revocation, suspension or termination of any such Authorization or results or, after notice or lapse of time or both, would result in any other material impairment of the rights of the holder of any such Authorization; and such Authorizations contain no restrictions that are burdensome to the Company, except where such failure to be valid and in full force and effect or to be in compliance, the occurrence of any such event or the presence of any such restriction would not, singly or in the aggregate, have a Material Adverse Effect.

(o) The Company owns or possesses all patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names ("intellectual property") currently employed by it in connection with the business now operated by it except where the failure to own or possess or otherwise be able to acquire such intellectual property would not, singly or in the aggregate, have a Material Adverse Effect; and the Company has not received any notice of

infringement of or conflict with asserted rights of others with respect to any of such intellectual property which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Material Adverse Effect.

(p) There are no costs or liabilities associated with Environmental Laws (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any Authorization, any related constraints on operating activities and any potential liabilities to third parties) which would, singly or in the aggregate, have a Material Adverse Effect.

(q) This Agreement has been duly authorized, executed and delivered by the Company.

(r) Deloitte & Touche LLP are independent public accountants with respect to the Company as required by the Act.

(s) (i) The financial statements included in the Registration Statement and the Prospectus (and any amendment or supplement thereto), together with related schedules and notes, present fairly the financial position, results of operations and changes in financial position of the Company on the basis stated therein at the respective dates or for the respective periods to which they apply; such statements and related schedules and notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; the supporting schedules, if any, included in the Registration Statement present fairly in accordance with generally accepted accounting principles the information required to be stated therein; and the other financial and statistical information and data set forth in the Registration Statement and the Prospectus (and any amendment or supplement thereto) are, in all material respects, accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Company.

(ii) The pro forma financial information included in the Registration Statement and the Prospectus (and any amendment or supplement thereto) has been prepared on a basis consistent with the financial statements referred to in clause (r)(i) above, except for the pro forma adjustments specified therein, and (A) gives effect to the assumptions set forth in the Registration Statement, (B) presents fairly in all material respects in accordance with generally accepted accounting principles consistently applied throughout such periods, the historical and proposed transactions contemplated by the Registration Statement and the Prospectus (and any amendment or supplement thereto) and this Agreement and (C) complies in all material respects with the requirements, if any, of Rule 11-01 and 11-02 of Regulation S-X.

(t) The Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds therefrom as described in the Prospectus, will not be, an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(u) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement.

(v) No relationship, direct or indirect, exists between or among the Company on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company on the other hand, which is required by the Act to be described in the Registration Statement or the Prospectus which is not so described.

(w) Since the respective dates as of which information is given in the Prospectus, other than as set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement), (i) there has not occurred any material adverse change or any development involving a prospective material adverse change in the condition, financial or otherwise,

or the earnings, business, management or operations of the Company, (ii) there has not been any material adverse change or any development involving a prospective material adverse change in the capital stock or in the long-term debt of the Company and (iii) the Company has not incurred any material liability or obligation, direct or contingent.

(x) Each certificate signed by any officer of the Company and delivered to the Underwriters or counsel for the Underwriters shall be deemed to be a representation and warranty by the Company to the Underwriters as to the matters covered thereby.

#### Section 7. Indemnification.

(a) The Company agrees to indemnify and hold harmless each Underwriter, its directors, its officers and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), from and against any and all losses, claims, damages, liabilities and judgments (including, without limitation, any legal or other expenses incurred in connection with investigating or defending any matter, including any action, that could give rise to any such losses, claims, damages, liabilities or judgments) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), the Prospectus (or any amendment or supplement thereto) or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or judgments are caused by any such untrue statement or omission or alleged untrue statement or omission (i) based upon information relating to any Underwriter furnished in writing to the Company by such Underwriter through the Representatives expressly for use therein or (ii) contained in any preliminary prospectus if a copy of the Prospectus (as amended or supplemented, if the Company shall furnish such amendment or supplement thereto) was not sent or given by or on behalf of such underwriter to the person asserting any such loss, claim, damage, liability or judgment, at or prior to the written confirmation of the sale of the Shares as required by the Act and the Prospectus (as so

-11-

amended or supplemented) would have corrected in all material respects such untrue statement or omission.

(b) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, to the same extent as the foregoing indemnity from the Company to such Underwriter but only with reference to information relating to such Underwriter furnished in writing to the Company by such Underwriter through the Representatives expressly for use in the Registration Statement (or any amendment thereto), the Prospectus (or any amendment or supplement thereto) or any preliminary prospectus.

(c) In case any action shall be commenced involving any person in respect of which indemnity may be sought pursuant to Section 7(a) or 7(b) (the "INDEMNIFIED PARTY"), the Indemnified Party shall promptly notify the person against whom such indemnity may be sought (the "INDEMNIFYING PARTY") in writing and the Indemnifying Party shall assume the defense of such action, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all reasonable fees and expenses of such counsel, as incurred (except that in the case of any action in respect of which indemnity may be sought pursuant to both Sections 7(a) and 7(b), the Underwriters shall not be required to assume the defense of such action pursuant to this Section 7(c), but may employ separate counsel and participate in the defense thereof, but the fees and expenses of such counsel, except as provided below, shall be at the expense of such Underwriter). Any Indemnified Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnified Party unless (i) the employment of such counsel shall have been specifically authorized in writing by the Indemnifying Party, (ii) the Indemnifying Party shall have failed to assume the defense of such action or employ counsel reasonably satisfactory to the Indemnified Party or (iii) the named parties to any such action (including any impleaded parties) include both the Indemnified Party and the Indemnifying Party, and the Indemnified Party shall have been

advised by such counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the Indemnifying Party (in which case the Indemnifying Party shall not have the right to assume the defense of such action on behalf of the Indemnified Party). In any such case, the Indemnifying Party shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) for all indemnified parties and all such fees and expenses shall be reimbursed as they are incurred. Such firm shall be designated in writing by DLJ, in the case of parties indemnified pursuant to Section 7(a), and by the Company, in the case of parties indemnified pursuant to Section 7(b). The Indemnifying Party shall indemnify and hold harmless the Indemnified Party from and against any and all losses, claims, damages, liabilities and judgments by reason of any settlement of any action (i) effected with its written consent or (ii) effected without its written consent if the settlement is entered into more than twenty business days after the Indemnifying Party shall have received a request from the Indemnified Party for reimbursement for the fees and expenses of counsel (in any case where such fees and expenses are at the expense of the Indemnifying Party) and, prior to the date of such settlement, the Indemnifying Party shall have failed to comply with such reimbursement

-12-

request (or shall have failed to contest, in good faith, all portions of such fees and expenses not so reimbursed). No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement or compromise of, or consent to the entry of judgment with respect to, any pending or threatened action in respect of which the Indemnified Party is or could have been a party and indemnity or contribution may be or could have been sought hereunder by the Indemnified Party, unless such settlement, compromise or judgment (i) includes an unconditional release of the Indemnified Party from all liability on claims that are or could have been the subject matter of such action and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of the Indemnified Party.

(d) To the extent the indemnification provided for in this Section 7 is unavailable to an Indemnified Party or insufficient in respect of any losses, claims, damages, liabilities or judgments referred to therein, then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages, liabilities and judgments (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other hand from the offering of the Shares or (ii) if the allocation provided by clause 7(d)(i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 7(d)(i) above but also the relative fault of the Company on the one hand and the Underwriters on the other hand in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or judgments, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other hand shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company, and the total underwriting discounts and commissions received by the Underwriters, bear to the total price to the public of the Shares, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7(d) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages, liabilities or judgments referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses incurred by such Indemnified Party in

connection with investigating or defending any matter, including any action, that could have given rise to such losses, claims, damages, liabilities or judgments. Notwithstanding the provisions of this Section 7, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged

-13-

omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section 7(d) are several in proportion to the respective number of Shares purchased by each of the Underwriters hereunder and not joint.

(e) The remedies provided for in this Section 7 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any Indemnified Party at law or in equity.

#### Section 8. Conditions of Underwriters' Obligations.

The several obligations of the Underwriters to purchase the Firm Shares under this Agreement are subject to the satisfaction of each of the following conditions:

(a) All the representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects on the Closing Date with the same force and effect as if made on and as of the Closing Date.

(b) If the Company is required to file a Rule 462(b) Registration Statement after the effectiveness of this Agreement, such Rule 462(b) Registration Statement shall have become effective by 10:00 P.M., New York City time, on the date of this Agreement; and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been commenced or shall be pending before or contemplated by the Commission.

(c) The Underwriters shall have received on the Closing Date a certificate dated the Closing Date, signed by Patricia Gallup and Wayne Wilson in their capacities as the chief executive officer and chief financial officer of the Company, respectively, confirming the matters set forth in Sections 6(w), 8(a) and 8(b) hereof and that the Company has complied with all of the agreements and satisfied all of the conditions herein contained and required to be complied with or satisfied by the Company on or prior to the Closing Date.

(d) Since the respective dates as of which information is given in the Prospectus other than as set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement), (i) there shall not have occurred any change or any development involving a prospective change in the condition, financial or otherwise, or the earnings, business, management or operations of the Company, (ii) there shall not have been any change or any development involving a prospective change in the capital stock or in the long-term debt of the Company and (iii) the Company shall not have incurred any liability or obligation, direct or contingent, the effect of which, in any such case described in Sections 8(d)(i), 8(d)(ii) or 8(d)(iii) hereof, in the Representatives' sole judgment, is material and adverse to the Company and, in the Representatives' sole judgment, makes it impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus.

-14-

(e) The Underwriters shall have received on the Closing Date an opinion (satisfactory to the Underwriters and counsel for the Underwriters), dated the Closing Date, of Hale and Dorr LLP, counsel for the Company, to the effect that:

(i) the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation and has the corporate power and authority to carry on its business and to own, lease and operate its properties, in each case as



described in the Prospectus;

(ii) the Company is duly qualified and is in good standing as a foreign corporation authorized to do business in [New Hampshire and] Ohio;

(iii) all the outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid, non-assessable and not subject to any preemptive or similar statutory rights or, to the knowledge of such counsel, similar contractual rights;

(iv) the Shares have been duly authorized and, when issued and delivered to the Underwriters against payment therefor as provided by this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar statutory rights or, to the knowledge of such counsel, similar contractual rights;

(v) this Agreement has been duly authorized, executed and delivered by the Company;

(vi) the Registration Statement has become effective under the Act, and to the knowledge of such counsel, (A) no stop order suspending its effectiveness has been issued and (B) no proceedings for that purpose are, to such counsel's knowledge, pending before or contemplated by the Commission;

(vii) the statements under the captions "Management--Stock Plans", "Certain Transactions", "Description of Capital Stock", "Shares Eligible for Future Sale" and Item 14 of Part II of the Registration Statement, insofar as such statements constitute matters of law or legal conclusions, are correct in all material respects;

(viii) the execution, delivery and performance of this Agreement by the Company, the compliance by the Company with all the provisions hereof and the consummation by the Company of the transactions contemplated hereby will not (A) require any consent, approval, authorization or other order of, or qualification with, any court or governmental body or agency (except such as may be required under the securities or Blue Sky laws of the various states or the NASD), (B) conflict with or constitute a breach of any of the terms or provisions of, or a default under, the charter or by-laws of the Company or any indenture, loan agreement, mortgage, lease or other agreement or instrument filed as an exhibit to the Registration Statement or (C) violate or conflict with any applicable law, rule or regulation, which in the experience of such counsel is normally applicable in transactions of the type contemplated by this

-15-

Agreement, or any judgment, order or decree identified by the Company to such counsel, of any court or any governmental body or agency having jurisdiction over the Company, or its property.

(ix) such counsel does not know of any material legal or governmental proceedings pending or threatened against the Company that are required by the Act or the rules and regulations thereunder to be described in the Registration Statement or the Prospectus and are not so described, or of any contracts or other documents of a character that are required by the Act or the rules and regulations thereunder to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed as required;

(x) the Company is not and, after giving effect to the offering and sale of the Shares and the application of the proceeds thereof as described in the Prospectus, will not be, an "investment company" as such term is defined in the Investment Company Act of 1940, as amended;

(xi) to such counsel's knowledge, there are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company or to require the Company to include such securities with the Shares registered pursuant to the Registration Statement; and

(xii) the Registration Statement, as of its effective date, and

the Prospectus as of its date, (except for the financial statements, including the notes and schedules thereto, and other financial and accounting data included therein as to which no opinion need be expressed) complied as to form with the Act in all material respects.

In addition to the matters set forth above, counsel rendering the foregoing opinion shall also include a statement to the effect that nothing has come to the attention of such counsel that has caused them to believe that the Registration Statement (except as to the financial statements, including the notes and schedules thereto, and other financial and accounting data included therein, as to which such counsel need not express any belief) at the Effective Date (but after giving effect to changes incorporated pursuant to Rule 430A under the Act) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus (except as to the financial statements, including the notes and schedules thereto, and other financial and accounting data included therein, as to which such counsel need not express any belief) as of its date or at the Closing Date, contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. With respect to such statement, such counsel may state that their belief is based upon the procedures set forth therein, but is without independent check or verification.

The opinion of Hale and Dorr LLP described in Section 8(e) above shall be rendered to the Underwriters at the request of the Company and shall so state therein.

-16-

(f) The Underwriters shall have received on the Closing Date an opinion, dated the Closing Date, of Latham & Watkins, counsel for the Underwriters, as to the matters referred to in Sections 8(e) (i), 8(e) (iv), 8(e) (v), 8(e) (vi), 8(e) (vii) (but only with respect to the statements under the caption "Description of Capital Stock") and 8(e) (xii) (but only as of the date of this Agreement). In giving such opinions with respect to the matters covered by Section 8(e) (xii) Latham & Watkins may state that their opinion and belief are based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto and review and discussion of the contents thereof, but are without independent check or verification except as specified.

(g) The Underwriters shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, respectively, in form and substance satisfactory to the Underwriters, from Deloitte & Touche LLP, independent public accountants, containing the information and statements of the type ordinarily included in accountants' "comfort letters" to Underwriters with respect to the financial statements and certain financial information contained in the Registration Statement and the Prospectus.

(h) The Company shall have delivered to the Underwriters the agreements specified in the last sentence of Section 2 hereof which agreements shall be in full force and effect on the Closing Date.

(i) The Shares shall have been duly approved for quotation on the Nasdaq National Market.

(j) The Company shall not have failed on or prior to the Closing Date to perform or comply in any material respects with any of the agreements herein contained and required to be performed or complied with by the Company on or prior to the Closing Date.

The several obligations of the Underwriters to purchase any Additional Shares hereunder are subject to the delivery to the Representatives on the applicable Option Closing Date of such documents (including opinions of counsel and accountants' "comfort letters" to the Underwriters) as the Representatives may reasonably request with respect to the incorporation and good standing of the Company, the due authorization and issuance of such Additional Shares and other matters related to the issuance and sale of such Additional Shares.

Section 9. Effectiveness of Agreement and Termination.

This Agreement shall become effective upon the execution and delivery

of this Agreement by the parties hereto.

This Agreement may be terminated at any time on or prior to the Closing Date by the Representatives by written notice to the Company if any of the following has occurred: (i) any outbreak or escalation of major hostilities or other national or international calamity or crisis or change in economic conditions in the United States or elsewhere that, in the judgment of the Representatives, is material and adverse and, in the judgment of the Representatives, makes it impracticable to market the Shares on the terms and in the manner contemplated in the Prospectus, (ii) the suspension or material limitation of trading in securities or other instruments

-17-

on the New York Stock Exchange, the American Stock Exchange, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange, the Chicago Board of Trade or the Nasdaq National Market or limitation on prices for securities or other instruments on any such exchange or the Nasdaq National Market, (iii) the suspension of trading of any securities of the Company on any exchange or in the over-the-counter market, (iv) the enactment, publication, decree or other promulgation of any federal or state statute, regulation, rule or order of any court or other governmental authority which in the reasonable judgment of the Representatives causes or will cause a Material Adverse Effect, (v) the declaration of a banking moratorium by either federal or New York State authorities or (vi) the taking of any action by any federal, state or local government or agency in respect of its monetary or fiscal affairs which in the judgment of the Representatives has a material adverse effect on the financial markets in the United States.

If on the Closing Date or on an Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase the Firm Shares or Additional Shares, as the case may be, which it or they have agreed to purchase hereunder on such date and the aggregate number of Firm Shares or Additional Shares, as the case may be, which such defaulting Underwriter or Underwriters, as the case may be, agreed but failed or refused to purchase is not more than one-tenth of the total number of Shares to be purchased on such date by all Underwriters, each non-defaulting Underwriter shall be obligated severally, in the proportion which the number of Firm Shares set forth opposite its name in Schedule I bears to the total number of Firm Shares which all the non-defaulting Underwriters, as the case may be, have agreed to purchase, or in such other proportion as the Underwriters may specify, to purchase the Firm Shares or Additional Shares, as the case may be, which such defaulting Underwriter or Underwriters, as the case may be, agreed but failed or refused to purchase on such date; provided that in no event shall the number of Firm Shares or Additional Shares, as the case may be, which any Underwriter has agreed to purchase pursuant to Section 2 hereof be increased pursuant to this Section 9 by an amount in excess of one-ninth of such number of Firm Shares or Additional Shares, as the case may be, without the written consent of such Underwriter. If on the Closing Date any Underwriter or Underwriters shall fail or refuse to purchase Firm Shares and the aggregate number of Firm Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Firm Shares to be purchased by all Underwriters and arrangements satisfactory to the Representatives and the Company for purchase of such Firm Shares are not made within 48 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter and the Company. In any such case which does not result in termination of this Agreement, either the Representatives or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and the Prospectus or any other documents or arrangements may be effected. If, on an Option Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Additional Shares and the aggregate number of Additional Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Additional Shares to be purchased on such date, the non-defaulting Underwriters shall have the option to (i) terminate their obligation hereunder to purchase such Additional Shares or (ii) purchase not less than the number of Additional Shares that such non-defaulting Underwriters would have been obligated to purchase on such date in the absence of such default. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of any such Underwriter under this Agreement.

-18-

Section 10. Miscellaneous.

Notices given pursuant to any provision of this Agreement shall be addressed as follows: (i) if to the Company, to PC Connection, Inc., 528 Route 13, P.O. Box 19, Milford, New Hampshire 03055, Attention: Patricia Gallup and (ii) if to any Underwriter or to the Representatives, to the Representatives c/o Donaldson, Lufkin & Jenrette Securities Corporation, 277 Park Avenue, New York, New York 10172, Attention: Syndicate Department, or in any case to such other address as the person to be notified may have requested in writing.

The respective indemnities, contribution agreements, representations, warranties and other statements of the Company and the several Underwriters set forth in or made pursuant to this Agreement shall remain operative and in full force and effect, and will survive delivery of and payment for the Shares, regardless of (i) any investigation, or statement as to the results thereof, made by or on behalf of any Underwriter, the officers or directors of any Underwriter, any person controlling any Underwriter, the Company, the officers or directors of the Company or any person controlling the Company, (ii) acceptance of the Shares and payment for them hereunder and (iii) termination of this Agreement.

If for any reason the Shares are not delivered by or on behalf of the Company as provided herein (other than as a result of any termination of this Agreement pursuant to Section 9), the Company agrees to reimburse the several Underwriters for all out-of-pocket expenses (including the reasonable fees and disbursements of counsel) incurred by them. Notwithstanding any termination of this Agreement, the Company shall be liable for all expenses which it has agreed to pay pursuant to Section 5(i) hereof.

Except as otherwise provided, this Agreement has been and is made solely for the benefit of and shall be binding upon the Company, the Underwriters, the Underwriters' directors and officers, any controlling persons referred to herein, the Company's directors and the Company's officers who sign the Registration Statement and their respective successors and assigns, all as and to the extent provided in this Agreement, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" shall not include a purchaser of any of the Shares from any of the several Underwriters merely because of such purchase.

This Agreement shall be governed and construed in accordance with the laws of the State of New York.

This Agreement may be signed in various counterparts which together shall constitute one and the same instrument.

-19-

Please confirm that the foregoing correctly sets forth the agreement between the Company and the several Underwriters.

Very truly yours,

PC CONNECTION, INC.

By: \_\_\_\_\_  
Name: Patricia Gallup  
Title: Chief Executive Officer

DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION  
NATIONSBANC MONTGOMERY SECURITIES, INC.  
WILLIAM BLAIR & COMPANY, L.L.C.

Acting severally on behalf of  
themselves and the several  
Underwriters named in Schedule I hereto

By: DONALDSON, LUFKIN & JENRETTE  
SECURITIES CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

-20-

SCHEDULE I  
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| Underwriters<br>- -----                                | Number of Firm Shares<br>to be Purchased<br>----- |
|--|---|
| Donaldson, Lufkin & Jenrette<br>Securities Corporation |   |
| NationsBanc Montgomery Securities, Inc.                |   |
| William Blair & Company, L.L.C.                        |   |
|  | Total _____                                       |

-21-

ANNEX I  
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Stockholders and Option Holders  
- -----

List of stockholders and existing holders of stock options who will be required to sign lock-ups to be finalized.

-22-

## AMENDED AND RESTATED LEASE

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This amended and restated Lease is made this 29th day of December, 1997 by and between G&H Post, LLC, a New Hampshire limited liability company with an address at P.O. Box 281, Gilsum, NH 03448 (hereinafter called "Lessor"), and PC Connection, Inc., a New Hampshire corporation with offices at 528 Route 13 South, Milford, NH 03055 (hereinafter called "Lessee"), and amends and restates in its entirety the Lease dated November 21, 1997 by and between the Lessor and Lessee.

## 1. Premises.

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1.1 In consideration of the rents, agreements and conditions herein reserved and contained on the part of Lessee to be paid, performed and observed, Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, for the term herein set forth, approximately 102,874 square feet encompassing the building known as Post Road Plaza, Route 101 A, Merrimack, New Hampshire, all as more particularly shown on the floor plan attached hereto as Exhibit A (hereinafter referred to as the "Premises" or "Post Road Plaza"). The Premises are a portion of the property described on Exhibit B attached hereto (the "Property"). Lessee shall also have the right to use, in common with other tenants, the parking areas, access areas, loading docks, pedestrian walkways, landscaped and planted areas, and other areas and facilities intended for use by all tenants of the Property ("Common Areas").

## 2. Term.

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2.1 The term of this Lease (the "Term") shall be for fifteen years (15), commencing on the date of Lessor's completion of the Tenant Improvements (hereinafter defined) (the "Commencement Date.") Lessor shall construct leasehold improvements in accordance with plans and specifications prepared by Lessor at its expense (the "Plans") ("Tenant Improvements"). The Plans shall be subject to Lessee's approval. Once Lessee has approved the Plans, Lessor shall construct the Tenant Improvements at Lessor's sole cost and expense. Lessor shall not be obligated to expend more than \$3,800,000 on Tenant improvements, and Lessor shall competitively bid all such improvement work and make available to Lessee for its review and approval all information reasonably requested by Lessee to verify such costs. Any unused portion of the \$3,800,000 allowance shall be available to Lessee as a rent credit. Any cost approved by Lessee in constructing the Tenant Improvements in excess of \$3,800,000 shall be paid by Lessee to Lessor as additional rent.

2.2 Notwithstanding the Lessor's failure to complete the Tenant Improvements as described in Exhibit B attached hereto, Lessee agrees to commence payment of rent and other payments required hereunder immediately upon receipt by Lessee of Notice from Lessor's construction Lender that Lessor is in default under Sections 2.4.6, 5.3, 5.4, 5.5 or 8.8 of its Loan Agreement with Lender ("Loan Agreement") and said default remains uncured after applicable cure periods ("Default

Notice"); and, upon said Notice, Lessee agrees to pay said rent directly to said Lender. Lessee also hereby agrees, upon the written request of Lender to be included in the Default Notice, to complete the Tenant Improvements at its cost and expense and is hereby given the right by Lessor to complete the Tenant Improvements as provided herein. Lessee shall, upon assuming, in writing, the obligation to complete the Tenant Improvements, and so-long as it makes said rent and other payments, have the right to request Construction Disbursements under the Loan Agreement up to the Loan Availability (as defined in the Loan Agreement) upon the terms and conditions thereof. Under no circumstances shall Lender be required or obligated to complete the Tenant Improvements or otherwise pay the cost thereof, except as provided in the Loan Agreement.

2.3 Lessor agrees to use reasonable efforts to complete the Tenant Improvements on or before July 1, 1998 (the "Scheduled Term Commencement Date"). The Tenant Improvements shall be deemed complete when a final certificate of

occupancy has been issued and the Premises are ready for occupancy by Lessee as certified by Lessor's architect with the exception of minor items which can be fully completed without material interference with Lessee and other items which because of the season or weather or the nature of the item are not practicable to do at the time, provided that none of said items is necessary to make the Premises tenantable for the permitted uses.

2.4 Lessor shall permit Lessee access for installing equipment and furnishings in the Premises prior to the Term if it can be done without material interference with completion of the Tenant Improvements. All construction work required or permitted by this Lease shall be done in a good and workmanlike manner and in compliance with all applicable laws and all lawful ordinances, regulations and orders of governmental authority. Either party may inspect the work of the other at reasonable times and promptly shall give notice of observed defects.

2.5 Lessee's obligation to pay rent under Section 3 below shall commence on the Commencement Date.

3. Base Rent; Taxes; CAM  
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3.1 Lessee shall pay to Lessor rent for the Premises, in the amount provided in Section 3.2, in advance, on the first day of each calendar month during the Term, at such place as may be designated from time to time by Lessor.

3.2 The base rent ("Base Rent") for the years 1 through 5 of the term hereof shall be the sum of Eight Dollars (\$8.00) per square foot or Eight Hundred Twenty Two Thousand Nine Hundred and Ninety Two Dollars (\$822,992) per year payable monthly, in advance, in installments of Sixty Eight Thousand Five Hundred and Eighty Three Dollars (\$68,583) (the "Base Rent"). The Base Rent for years 6 through

-2-

10 of the term hereof shall be the sum of Nine Dollars (\$9.00) per square foot or Nine Hundred Twenty Five Thousand, Eight Hundred and Sixty Six Dollars (\$925,866) per year payable monthly, in advance, in installments of Seventy Seven Thousand, One Hundred and Fifty Six Dollars (\$77,156). The Base Rent for years 11 through 15 of the term hereof shall be the sum of Ten Dollars (\$10.00) per square foot or One Million Twenty Eight Thousand, Seven Hundred and Forty Dollars (\$1,028,740) per year payable monthly, in advance, in installments of Eighty Five Thousand, Seven Hundred and Twenty Eight Dollars (\$85,728).

3.3 In the event that any monthly installment of rent accruing under this Lease shall not be paid when due, Lessee shall pay to Lessor any bank penalty or late charges and mortgage interest, incurred by Lessor because of said delayed payment of rent and in the event that said delay in payment of rent becomes a default under Section 14, then the delayed payment of rent shall bear interest from the date said delayed payment becomes a default at a rate of three percent (3%) per annum over the prime rate in effect at CFX Bank, its successors or assigns, at the time when said rent payment is due.

3.4 Security Deposit. Lessee has concurrently delivered to Lessor the sum  
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of Sixty Eight Thousand Five Hundred Dollars (\$68,500) as security deposit (the "Security Deposit"). The Security Deposit shall draw no interest, except to the extent otherwise required by law. The Security Deposit may be used by Lessor to cure any breach of Lessee hereunder, and, to the extent not so used, shall be returned to Lessee upon termination of this Lease and redelivery of the Premises as required hereby.

3.5 Lessee to Pay Proportionate Share of Taxes. Lessee shall pay as  
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additional rent, its Proportionate Share (as defined in Section 3.10 below) of all amounts payable by Lessor with respect to real estate taxes due with respect to the Property, including, without limitation, ad valorem taxes and assessments, general and special taxes and assessments, taxes on real estate rental receipts, or any other tax imposed upon or levied against real estate, or upon owners of real estate as such rather than persons generally, extraordinary as well as ordinary, foreseeable and unforeseeable, including taxes imposed on leasehold improvements which are assessed against Lessor, payable with respect to or allocable to the Property together with the reasonable cost (including fees of attorneys, consultants and appraisers) of any negotiation, contest or

appeal pursued by Lessor in an effort to reduce any such tax, assessment or charge, all of the above being collectively referred to herein as "Taxes." "Taxes" shall not include any income, profit, business or gross receipt tax or capital levy, nor any inheritance, estate, succession, transfer, gift, franchise or corporation tax levied or imposed upon Lessor, nor any real estate transfer tax, mortgage lien tax, documentary stamp tax, recording fees or the like.

-3-

3.6 Payment. Lessee's Proportionate Share of Taxes shall be paid by

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Lessee in monthly installments on the date Base Rent is paid. Monthly payments shall be based on estimates made by Lessor from time to time. Lessor may reestimate Lessee's proportionate share of Taxes and thereafter adjust Lessee's monthly installments to reflect more accurately Lessee's Proportionate Share of Taxes. Within one hundred twenty (120) days after Lessor's receipt of tax bills, Lessor will notify Lessee of the amount of Taxes for the tax year in question and the amount of Lessee's Proportionate Share thereof. Any overpayment or deficiency in Lessee's payment of its proportionate share of Taxes shall be adjusted between Lessor and Lessee, and Lessor and Lessee hereby agree that Lessee shall pay Lessor or Lessor shall credit to Lessee's account (or, if such adjustment is at the end of the Term, Lessor shall pay Lessee), as the case may be, within fifteen (15) days of the aforesaid notice to Lessee, such amounts as may be necessary to effect such adjustment. Failure of Lessor to provide such notice within the time prescribed shall not relieve Lessor or Lessee of their respective obligations hereunder. Lessee shall not be responsible for any interest, fines or penalties due to the taxing authorization arising out of Lessor's failure to pay the Taxes when due, provided that Lessee

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has complied with its obligations under this Section 3.

3.7 Management and Operation of Common Areas. Lessor will operate and

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maintain, or will cause to be operated and maintained, the Common Areas in a good, clean, and neat condition, and to cause snow to be removed from the parking lot and walkways all in a reasonable manner deemed by Lessor to be appropriate and in the best interests of the Property, and consistent with other similar first class office buildings. Lessor will have the right (i) to establish, modify and enforce rules and regulations with respect to the Common Areas which rules are commercially reasonable for Property of similar size in similar locations; (ii) to enter into, modify and terminate easement and other agreements pertaining to the use and maintenance of the Common Areas, (iii) to temporarily close all or any portion of the Common Areas to such extent as may, in the opinion of Lessor, be necessary to prevent a dedication thereof or the accrual of any rights to any person or to the public therein; and (iv) to close temporarily any or all portions of the Common Areas which may in the opinion of Lessor, be necessary to perform Lessor's repairs or maintenance; and (v) to do and perform such other acts in and to said areas and improvements as, in the exercise of good business judgment, Lessor shall determine to be advisable and in the best interest of the Property. In no event shall Lessor alter the Common Areas in such a way as to reduce the number of parking spaces available to Lessee below [750] or to otherwise materially interfere with the operation of Lessee's business.

3.8 Lessee to Share Expense of Common Areas and Lessor's Operating Costs.

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Lessee will pay Lessor, as additional rent, its Proportionate Share of Lessor's Operating Costs (as defined in Section 3.10 below). Such Proportionate Share shall be paid by Lessee in monthly installments when Base Rent is due in such amounts as are estimated and billed by Lessor. Lessor may reestimate Lessee's Proportionate

-4-

Share of Lessor's Operating Costs and thereafter adjust Lessee's monthly installments to reflect more accurately Lessee's Proportionate Share of Lessor's Operating Costs. Within one hundred twenty (120) days (or such additional time thereafter as is reasonable under the circumstances) after the end of each twelve (12) month period, Lessor shall deliver to Lessee a statement of Lessor's Operating Costs for such twelve (12) month period and the monthly installments paid or payable shall be adjusted between Lessor and Lessee, and Lessee shall pay Lessor or Lessor shall credit Lessee's account (or, if such adjustment is at the end of the Term, Lessor shall pay Lessee), as the case may be, within



fifteen (15) days of receipt of such statement, such amounts as may be necessary to effect such adjustment. Upon reasonable notice, Lessor shall make available for Lessee's inspection at Lessor's office, during normal business hours, Lessor's records relating to Lessor's Operating Costs for the preceding twenty-four (24) month period in order to perform an audit of Lessor's records. If any audit performed by Lessee of Lessor's Operating Costs proves that Lessor has overstated Lessor's actual Operating Costs by more than five percent (5%), Lessor shall reimburse Lessee for Lessee's reasonable costs in conducting said audit.

3.9 "Lessor's Operating Costs" Defined. The term "Lessor's Operating

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Costs" means all costs and expenses reasonably incurred by or on behalf of Lessor in operating, managing, insuring, securing and maintaining the Property and the common areas pursuant to Section 5.1 including, but not limited to, all costs and expenses of operating, maintaining, repairing, lighting, signing, cleaning, painting, striping, policing and security of the Common Areas; alarm and life safety systems; insurance, including, without limitation, liability insurance for personal injury, death and property damage, all-risks casualty insurance (including coverage against fire, flood, theft or other casualties), worker's compensation insurance or similar insurance covering personnel, fidelity bonds for personnel, insurance against liability for assault and battery, defamation and claims of false arrest occurring on and about the Common Areas, the costs and expenses of maintenance of all exterior glass; maintenance of sprinkler systems; removal of water, snow, ice, trash and debris; installing and renting of signs for the Property as a whole; fire protection; maintenance and repair of utility systems serving the Property, including, but not limited to, water, sanitary sewer and storm water lines and other utility lines, pipes and conduits; costs and expenses of repair or replacement of awnings, paving, curbs, walkways, landscaping, drainage, pipes, ducts, conduits and similar items, lighting facilities; costs and expenses of planting, replanting, replacing and displaying flowers, shrubbery and planters; costs of providing light and power to the Common Areas; cost of water services, if any, furnished by Lessor for the non-exclusive use of all Lessees; parcel pick-up and delivery services. Lessor may elect to amortize any of the foregoing costs and expenses over a useful life determined in accordance with generally accepted accounting principles. Notwithstanding anything to the contrary in this Section 3.9, Lessor's Operating Costs shall not include any costs or expenses incurred for the benefit of any particular Lessee or Lessees and not the Property as a

-5-

whole, or any costs incurred for repairs or replacements which would be classified under the Internal Revenue Code as "capital" in nature.

3.1 "Proportionate Share" defined: For purposes of this Lease, Lessee's

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Proportionate Share shall equal the rentable area of the Premises divided by the rentable area of all space available to lease on the Property from time to time. Lessee's Proportionate Share shall be modified proportionately in the event Lessee occupies additional space within.

4. Use.

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4.1 The Premises shall be used for office, storage, retail uses, telemarketing and storage of inventory.

4.2 Lessee shall not use or occupy or permit the property to be used or occupied, nor do or permit anything to be done in or on the property, in a manner which will in any way violate any certificate of occupancy affecting the property, or make void or voidable any insurance then in force with respect thereto, which will make it impossible to obtain fire or other insurance required to be furnished by Lessor hereunder, or which will cause or be likely to cause structural damage to the building or any part thereof, or which will constitute a public or private nuisance, and shall not use or occupy or permit the property to be used or occupied in any manner which will violate any present or future laws or regulations of any governmental authority.

5. Obligation to Repair.

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5.1 Repairs To Be Made By Lessor. Lessor, at its expense, will make, or

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cause to be made, structural repairs to exterior walls, structural columns, structural girders, roof, roof deck and roof penetrations and structural floors which collectively enclose the Premises (excluding, however, all doors, door frames, storefronts, windows and glass). Lessor shall not be required to make any repairs occasioned by the act or neglect of Lessee, its assignees, sublessees, servants, agents, employees, invitees, licensees or concessionaires. If the Premises should become in need of repairs required to be made by Lessor hereunder, Lessee shall give immediate written notice thereof to Lessor, and Lessor shall not be responsible in any way for failure to make any such repairs until a reasonable time shall have elapsed after the giving of such written notice. Lessor agrees to indemnify and hold Lessee harmless from and against all claims, actions, damages and liability suffered by Lessee in connection with any damage or injury sustained by any person because of the failure of structural columns or structural girders, roof, floors or other installations whose maintenance and repair is the responsibility of Lessor, including, but not limited to reasonable attorneys' and other professional fees.

-6-

5.2 Repairs To Be Made By Lessee. All repairs to the Premises, or any

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installations, equipment or facilities therein, other than those repairs required to be made by Lessor pursuant to Section 5.1, shall be made by Lessee at its expense. Without limiting the generality of the foregoing, Lessee will keep the interior of the Premises, together with all electrical, plumbing and other mechanical installations therein and the heating ventilating and air-conditioning system, in good order and repair and will make all replacements from time to time required thereto at its expense; provided, however, that Lessee shall not be required to make any repairs which are capital in nature, the cost of which shall be borne by Lessor and performed by Lessor. Lessee will surrender the Premises at the expiration of the Term or at such other time as it may vacate the Premises in as good condition as when received, excepting depreciation caused by ordinary wear and tear, damage by Casualty, unavoidable accident or Act of God. Any damage or injury sustained by any person because of mechanical, electrical, plumbing or any other equipment or installations, whose maintenance and repair shall be the responsibility of Lessee, shall be paid for by Lessee, and Lessee hereby agrees to indemnify and hold Lessor harmless from and against all claims, actions, damages and liability suffered by Lessor in connection therewith, including, but not limited to reasonable attorneys' and other professional fees.

5.3 Damage to Premises. Lessee will repair promptly at its expense any

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damage to the Premises, and, upon demand, shall reimburse Lessor (as Additional Rent) for the reasonable cost of the repair of any damage elsewhere in the Property, caused by Lessee, its agents, servants, employees, or contractors, invitees or customers. If Lessee shall fail to commence such repairs within twenty (20) days after notice to do so from Lessor, Lessor may make or cause the same to be made and Lessee agrees to pay Lessor promptly upon Lessor's demand, as Additional Rent. Lessee shall not be responsible for any damage caused by Lessor's gross negligence or misconduct.

6. Right to Alter and Improve

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6.1 Unless prohibited by the terms of any mortgage, Lessee may make such additions and alterations, structural or otherwise, to the Premises as Lessee deems desirable in the conduct of its business, provided that, prior to the commencement of any such additions, alterations or improvements, Lessor shall in each case have reasonably approved, in writing, the plans and specifications therefor. In any case, where any addition, alteration or improvement would require the consent of any institution which holds any mortgage, Lessee shall procure such consent before undertaking such addition, alteration or improvement.

6.2 All work done in connection with any addition, improvement or alteration shall be done in a good and workmanlike manner and in compliance with the building and zoning laws and with all other laws, ordinances, orders, rules,

-7-

regulations, and requirements of all federal, state and municipal governments and the appropriate departments, commissions, boards, and offices thereof, and

in accordance with the orders, rules and regulations of the board of fire underwriters or any other body, now or hereafter constituted, exercising similar functions and Lessee shall procure, at its own cost, certificates of occupancy and other certificates and permits if required by law.

6.3 Lessee will not permit any mechanic's, materialmen's or other liens to stand against the property for work or material furnished to Lessee; provided that Lessee shall have the right to contest the validity of any lien or claim. If Lessee has not caused such lien or liens to be dismissed within ninety (90) days of notice thereof; Lessee shall post a bond to ensure that upon final determination of the validity of such lien or claim and Lessee shall immediately pay any judgment rendered against it, with all proper costs and charges, and shall have such lien released without cost to Lessor.

6.4 Changes and Additions to Property. Lessor reserves the right at any  
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time and from time to time to (a) make or permit changes or revisions to the Property including additions to, subtractions from, arrangements of, alterations of, modifications of; or supplements to, the building areas, walkways, driveways, parking area, or other Common Areas, b) construct improvements and to make alterations thereof or additions thereto and to build additional stories on or in any such building(s) provided, however, that no such changes, rearrangements or other construction shall reduce the parking available to Lessee below [750] spaces or otherwise have a material adverse impact on the operation of Lessee's business at the Premises.

7. Removal of Improvements. With the exception of that machinery and  
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equipment and personal property referenced in Section 8.1 and 8.2 below, all permanent light fixtures, paneling and other wall coverings, partitions, insulation, water system, carpets and wall to wall floor coverings, air conditioning, heating, ceiling tiles and all other permanent improvements which are installed by Lessee and enhance the Premises shall become the property of Lessor at the expiration of this Lease, or at its earlier termination for any cause herein provided for; provided, however, if Lessor shall so direct in writing at the time Lessee requests Lessor's approval for the installation thereof, Lessee shall remove any alterations, additions and improvements to the Premises so specified by Lessor made by it during the term hereof, not mentioned above, and shall restore the Premises to their condition as at the beginning of the term hereof, reasonable wear and tear, casualty and taking by eminent domain excepted. If Lessor shall not give such written direction to Lessee, all such alterations, additions, and improvements shall become and remain the property of Lessor.

8. Machinery and Equipment - Trade Fixtures.  
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8.1 Lessee agrees that all machinery and equipment and appurtenances thereto, installed in the Premises by it or by any employee, agent or subcontractor of Lessee, or by any sublessee of Lessee, which cannot be removed from the leased Premises without permanent and substantial damage to the Premises shall be and become part of the realty and shall be and become the property of Lessor and shall not be removed from the Premises without the written consent of Lessor.

8.2 All machinery and equipment and appurtenances thereto installed in the Premises by Lessee or by any employee, agent or subcontractor of Lessee, or by any sublessee of Lessee, which may be removed from the Premises without permanent and substantial damage to the Premises; and,

8.3 All furniture, furnishings and movable trade fixtures, including movable office dividers, installed in the Premises shall be deemed to remain personal property and all such machinery, equipment, appurtenances, furniture, furnishings and movable trade fixtures including movable office dividers, of Lessee or of any employee, agent or subcontractor or sublessee of Lessee may be removed prior to the expiration of this Lease or its earlier termination for any cause herein provided for; but Lessee shall repair any damage occasioned by such removal and shall reasonably restore the Premises to their condition as at the beginning of the term hereof, reasonable wear and tear, taking by eminent domain, and damage insurance under the standard New Hampshire fire insurance policy with extended coverage excepted to the extent of such coverage.

8.4 Any such property which may be removed pursuant to subparagraphs 8.2 and 8.3, and which is not so removed prior to the expiration or earlier termination of this Lease may be removed from the Premises by Lessor and stored for the account of Lessee; and if Lessee shall fail to reclaim such property within sixty (60) days following such expiration or earlier termination of this Lease, such property shall be deemed to have been abandoned by Lessee and may be appropriated, sold, destroyed, or otherwise disposed of by Lessor without notice to Lessee and without obligation to account therefor. Lessee shall pay to Lessor the costs incurred by Lessor in moving, storing, selling, destroying, or otherwise disposing of any such property.

9. Utilities.  
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9.1 Provision of Utilities. Lessor will provide, or cause to be provided  
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to the Premises water, electricity, telephone, sanitary sewer, heat, ventilation and air conditioning. Lessee shall arrange for the furnishing to the Premises of such utility services as it may require, as well as for the installation of all meters or other devices. Lessee shall be solely responsible for and shall promptly pay, as and when the same become due and payable, all charges for water, sewer, electricity, gas, telephone and

-9-

any other utility used or consumed in the Premises and supplied by a public utility or public authority or any other person, firm or corporation, including Lessor, supplying the same.

9.2 Lessor, in its sole discretion, shall have the right, from time to time, to alter the method and source of supply to the Premises of electricity or any other utility, and Lessee agrees to execute and deliver to Lessor such documentation as may be required to effect such alteration, provided, however that Lessee shall not be required to bear any portion of the cost of such alteration or to incur any additional financial obligation as a result of such alteration.

9.3 Lessee shall not at any time overburden or exceed the capacity of the mains, feeders, ducts, conduits, or other facilities by which such utilities are supplied to, distributed in or serve the Premises. If Lessee desires to install any equipment which shall require additional utility facilities or utility facilities of a greater capacity than the facilities provided by Lessor, such installation shall be subject to Lessor's prior approval of Lessee's plans and specifications therefor which approval shall not be unreasonably withheld or delayed. If such installation is approved by Lessor, Lessee shall cause the same to be installed in a good and workmanlike manner and in compliance with Sections 7.3 and 12.4.

9.4 Discontinuances and Interruptions of Utility Services. Unless caused  
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by Lessor, Lessor shall not be liable to Lessee in damages or otherwise (i) if any utility shall become unavailable from any public utility company, public authority or any other person or entity supplying or distributing such utility, or (ii) for any interruption in any utility service (including, without limitation, any heating, ventilation, air-conditioning or sprinkler) caused by the making of any necessary repairs or improvements or by any cause beyond Lessor's reasonable control, and the same shall not constitute a termination of this Lease or an eviction of Lessee, provided, however, that Lessor shall use diligent efforts to restore such utilities.

10. Insurance.  
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10.1 Throughout the lease term, Lessee shall keep the Premises continuously insured as hereinbelow set forth paying as the same become due all premiums in respect thereto:

10.1.a insurance to the extent of \$3,000,000 per accident against liability for bodily injury, including death resulting therefrom, and to the extent of \$3,000,000 per accident against liability for damage to property including loss of use thereof, incurring on or in any way related to the Premises or any part thereof;

10.1.b Contents Insurance - Lessor shall not be liable to Lessee

for loss or damage to production machinery and equipment, furnishings, fixtures,

inventory or other personal property, unless caused by Lessor's negligence or willful misconduct;

Lessor shall maintain the following insurance coverages (the cost of which shall be an Operating Cost):

(a) Broad Form Fire and Extended Coverage Insurance in an amount equal to the full current replacement value of the building and improvements on the Property, naming Lessor and the holder of any mortgage on the Premises as insured parties; and,

(b) Rental Value Insurance covering risk of loss of rental due to the occurrence of any of the hazards insured against by the Fire and Extended Coverage Insurance referenced in (a) above, in an amount not less than the then applicable Base Rent, which insurance shall name only Lessor as insured.

10.2 Additional Provisions Respecting Insurance. All insurance required

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in Section 10 hereof shall be taken out and maintained in generally recognized responsible insurance companies qualified to do business in the State of New Hampshire. All documents evidencing such insurance carried by Lessee shall name Lessor as an additional insured and, at the request of Lessor, shall contain standard mortgage clauses covering any mortgages and shall contain a waiver by the insurers against Lessor and Lessee or their agents because of any act of negligence thereof. A certificate or certificates of the insurers that such insurance is in force and effect shall be deposited with Lessor prior to the expiration of any such policy. Lessee shall furnish Lessor with evidence satisfactory to Lessor that the policy has been renewed or replaced or is no longer required by this Lease. All insurance policies required to be procured under Section 10 shall be in form, coverage and amounts reasonably satisfactory to Lessor. All such policies shall provide that no policy shall be terminated, canceled or otherwise modified unless ten (10) days' prior written notice is given to Lessor.

10.3 Advances by Lessor. In the event Lessee shall fail to maintain the

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full insurance coverage required by this Lease or shall fail to keep the Premises in safe condition, or shall fail to keep the building in good repair and good operating condition, Lessor may (but shall be under no obligation to) take out the required policies of insurance and pay the premiums on the same or make the required repairs, renewals and replacements; and all amounts so advanced therefor by Lessor shall become additional rent due from Lessee to Lessor, which rent, together with interest, from the date of payment by Lessor at a rate of two percent (2%) per annum over the prime rate of interest charged by CFX Bank, its successors or assigns, at the time of payment thereof by Lessor, Lessee agrees to pay to Lessor on demand.

10.4 Waiver of Subrogation. Lessee and Lessor each hereby waive any and

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all rights of recovery against the other, or against the officers, employees, agents and representatives of the other, for loss of or damage to such waiving party or its property or the property of others under its control to the extent that such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. Each party shall obtain clauses in the policies of insurance required hereunder pursuant to which the insurance carrier or carriers waive all right of subrogation against the waiving party with respect to losses payable under such policies.

11. Damage Destruction and Condemnation.

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11.1 Damage and Destruction. If the Premises shall be damaged, in whole

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or in part, by fire or casualty or action of public authority in consequence thereof:

11.1.a The rent hereinbefore reserved, or adjust and proportional

share thereof, according to the nature and extent of the injuries sustained, shall be suspended or abated until Lessor shall have repaired or restored the Premises to substantially their condition at the time of their damage; or,

11.1.b If the Premises are, by such damage, rendered unsuitable for Lessee's use for more than 180 days, this Lease shall be terminated at the election of Lessor or Lessee, or their respective legal representatives, any such election to be made by written notice given to Lessor or Lessee, as the case may be, within thirty (30) days after such damage or destruction occurs, and if any such election is made, this Lease shall terminate in accordance therewith as of the date of such damage or destruction.

In the event of any damage or destruction, and this Lease is not to terminate as aforesaid, Lessor shall exercise its best efforts immediately to commence and complete such repairs or restoration; provided Lessor shall not be required to expend more than the net proceeds of insurance in repairing such damage, unless, if the damage is more extensive than is compensable by such net proceeds, Lessee after receiving notice of the amount of coverage or amount of money so due Lessor, agrees, by immediate written notice to Lessor, to furnish the excess amount required to repair or restore.

11.2 Condemnation. If the Premises or any portion thereof are taken under -----  
the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than twenty-five percent (25%) of the floor area of the improvements on the Premises is taken by condemnation or any material portion of the parking area available to Lessee, Lessee may, at Lessee's option to be exercised in

-12-

writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking, terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent shall be reduced in the proportion that the floor area taken bears to the total floor area of the building situated on the Premises. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages;

PROVIDED, HOWEVER, that Lessee shall be entitled to any award for relocation expenses or for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall, to the extent of severance damages initially received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessor shall pay any amount in excess of such severance damages required to complete such repair.

12. Special Covenants.  
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12.1 Quiet Enjoyment and Condition of Premises. Lessor shall put Lessee -----  
in possession of the leased Premises at the beginning of the Term hereof, and Lessee, upon paying the rent and observing the other covenants and herein upon its part to be observed, shall peaceably hold and enjoy the Premises. Except for the Lessee Improvements to be made by Lessor, Lessee hereby accepts the Premises in their condition existing as of the date of the execution hereof; provided, however, that Lessor shall deliver the Premises to Lessee in compliance with all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the suitability of the Premises for the conduct of Lessee's business and that Lessee has made an inspection of the Premises.

12.2 Lessor's Right of Access to the Premises. Lessee agrees that Lessor, -----  
and its duly authorized agents shall have the right at all reasonable times,

with the prior consent of Lessee, which consent will not unreasonably be withheld, to enter upon the Premises and to examine and inspect the Premises; provided that in the event of an emergency Lessor shall have the right to enter the Premises for any purpose connected with Lessor's rights, duties or obligations under this Lease. Lessee further agrees that Lessor and its duly authorized agents shall have such rights of access to the building as may be reasonably necessary for the proper maintenance of the

-13-

building in the event of failure by Lessee to perform its obligations under Section 5.1 hereof.

12.3 Notice of Lease. Lessor, upon the written request of Lessee, shall

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at any time join in an execution of a notice or a memorandum of lease as may be deemed necessary by Lessee, all in proper form for recording or filing in the appropriate offices, setting forth the existence and terms of this Lease, and Lessor and Lessee shall take all such action as may be necessary to permit such recording or filing.

12.4 Access for Renting. During the last six (6) months of the Term,

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Lessor, or any agent or employee of Lessor, shall have free access to the Premises at all reasonable hours, with the prior consent of Lessee, which consent will not unreasonably be withheld, to exhibit and inspect the same and to take measurements in connection with any leasing or prospective leasing or construction of the Premises. Lessor shall have the right to enter onto the Premises at all reasonable hours, with the prior consent of Lessee, which consent will not unreasonably be withheld, during the sixty (60) days prior to the expiration of the Term and during such time may place in the windows and doors of the building such usual "For Rent" or "For Sale" signs as may be reasonably necessary in the advertising of the Premises.

13. Assignment and Subleasing.

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This Lease may not be assigned by Lessee or subleased by Lessee as a whole or in part, without the express written consent of Lessor, which written consent shall not be unreasonably withheld, if the following conditions are met by Lessee:

13.1 No sublease shall relieve Lessee from primary liability for any of its obligations hereunder, and in the event of any such sublease Lessee shall continue to remain primarily liable for payment of the rents specified above and for performance and observance of the other covenants, warranties, representations and agreements on its part herein provided to be performed and observed by it to the same extent as though no sublease had been made;

13.2 The sublease shall assume the obligations of Lessee hereunder to the extent of the interest subleased; and,

13.3 Lessee shall, within thirty (30) days prior to the delivery thereof, furnish or cause to be furnished to Lessor a true and complete copy of each such assumption of obligations and sublease, as the case may be in order that Lessor may examine the same for the purpose of giving its consent as referred to hereinabove. Notwithstanding the foregoing, no consent shall be required for an assignment or subletting to any affiliate of Lessee in connection with a merger or a sale of substantially all of the stock or assets of Lessee.

-14-

14. Events of Default and Remedies.

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14.1 Events of Default Defined. The following shall be "events of

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default" under this Lease and the terms "events of default" or "default" shall mean, whenever they are used in this Lease, any one or more of the following events:

14.1.a failure by Lessee to pay the rents required to be paid at the times specified therein and continuation of said failure for a period often

(10) days after written notice;

14.1.b failure by Lessee to observe and perform any covenants, condition or agreement on its part in this Lease to be observed or performed, other than as referred to in subsection 14.1.a, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, given to Lessee by Lessor, or if the nature of said default is such that a period in excess of thirty (30) days is required in order to cure it and Lessee has, upon notice of the default as aforesaid, immediately commenced and has continued within said thirty (30) day period to prosecute the curing of said default with all due diligence, then said period of thirty (30) days shall be extended for such period as shall be required by Lessee to cure same;

14.1.c filing by Lessee of a voluntary petition, or the filing against Lessee of an involuntary petition, in bankruptcy not discharged within sixty (60) days, or failure by Lessee promptly to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry on its business at the Premises, or the commission by Lessee of any act of bankruptcy, or the insolvency of Lessee, or adjudication of Lessee as a bankrupt, or assignment by Lessee under the bankruptcy laws of the United States of America or of any state not discharged within sixty (60) days, or the entry by Lessee into an agreement of composition with its creditors, the institution of any proceedings for any relief of Lessee under any bankruptcy or insolvency laws or any laws relating to the relief of debtors, readjustment of indebtedness arrangements, composition or extension not discharged within sixty (60) days, or Lessee is generally not paying its debts as they become due; or,

14.1 Remedies on Default. Whenever any event of default referred to in

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Section 14.1 hereof shall have happened and be subsisting, Lessor may immediately or at any time thereafter and without demand or notice enter upon the leased premises or any part thereof in the name of the whole and repossess the same as of Lessor's former estate and expel Lessee and those claiming through or under Lessee and remove their effects forcibly if necessary, without being deemed guilty of any manner of trespass and without prejudice to any remedies which might otherwise be used for arrears of rent or preceding breach of covenant, and upon such entry this Lease shall terminate, and Lessor may, at its option, declare all installments of rent payable for the remainder of the Term hereof to be immediately due and payable,

whereupon the same shall become immediately due and payable. Lessee covenants that, in case of such termination under the provisions of statute by reason of the default of Lessee, Lessee shall remain and continue liable to Lessor in an amount equal to the total rent reserved for the balance of the Term hereof plus all additional rent reserved for the balance of the Term hereof less the net amounts (after deducting the reasonable expenses of reletting, repair, renovation or demolition) which Lessor realizes from the reletting of the Premises. As used in this Section, the term "additional rent" means the value of all considerations other than rent agreed to be paid or performed by Lessee hereunder, including, without limiting the generality of the foregoing, taxes, assessments, and insurance premiums. Lessor shall have the obligation to take reasonable steps to mitigate the damages caused by Lessee's default hereunder, including reletting the leased premises, and shall have the right from time to time to relet the leased premises upon such terms as it may reasonably deem fit, provided such terms are reasonably in accordance with the general market for the Premises in the area. If a sufficient sum shall not be thus realized to yield the net rent required under this Lease, Lessee agrees to satisfy and pay all deficiencies as they may become due during each month of the remaining Term of this Lease. Nothing herein contained shall be deemed to require Lessor to await the date whereon this Lease, or the Term hereof, would have expired had there been no default by Lessee, or no such termination or cancellation. Lessee expressly waives service of any notice of intention to reenter and waives and all right to recover or regain possession of the leased premises, or to reinstate or redeem this Lease as may be permitted or provided for by or under any statute or law now or hereafter in force and effect.

14.3 No Remedy Exclusive. No remedy herein conferred upon or reserved to

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Lessor is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power



accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Lessor to exercise any remedy reserved to it in this Section, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

14.4 Agreement to Pay Attorneys' Fees and Expenses. In the event Lessor

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or Lessee should default under any of the provisions of this Lease and the non-defaulting party should employ attorneys or incur other expenses for the collection of rent or the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the non-defaulting party the reasonable fees of such attorneys and such other expenses so incurred by the non-defaulting party.

-16-

14.5 No Additional Waiver Implied by One Waiver. In the event any

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agreement contained in this Lease should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

15. Indemnity.

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15.1 Indemnity. Lessee shall indemnify and hold Lessor harmless from and

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against any and all claims arising from Lessee's use of the Premises, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold Lessor harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any negligence of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, reasonable attorneys' fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding is brought against Lessor by reason of any such claim, Lessee, upon notice from Lessor, shall defend the same at Lessee's expense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property or injury to persons, in, upon, or about the Premises arising from any cause, except damage to property or injury to persons caused by the actions or inactions of Lessor or any other lessee of the property, and Lessee hereby waives all claims in respect thereof against Lessor.

15.2 Exemption of Lessor from Liability. Lessee hereby agrees that unless

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caused by Lessor's negligence or willful misconduct, Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee.

16. Miscellaneous.

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16.1 Notices. All notices, certificates or other communications hereunder

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shall be sufficiently given and shall be deemed given when sent by recognized overnight courier or mailed by registered or certified mail, postage prepaid, to the

-17-

following addresses or to such other addresses as the parties shall, by like notice, notify one another:

If to Lessor: G&H Post, L.L.C.  
P.O Box 281  
Gilsum, New Hampshire 03448  
Attn: David Hall

If to Lessee: PC Connection, Inc.  
528 Route 13 South  
Milford, New Hampshire 03055  
Attn: Wayne Wilson

16.2 Binding Effect. This Lease shall inure to the benefit of and shall  
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be binding upon Lessor, Lessee and their respective heirs, assigns, legal  
representatives and successors.

16.3 Severability. In the event any provision of this Lease shall be held  
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invalid or unenforceable by any court of competent jurisdiction or by any future  
legislative action, such holding or such action shall not invalidate or render  
unenforceable any other provisions hereof.

16.4 Entire Agreement. This lease embodies the entire agreement and  
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understanding between the parties hereto with respect to the subject matter  
hereof and supersedes all prior agreements and understandings relating to such  
subject matter, including the Lease dated November 21, 1997, by and between the  
Lessor and Lessee.

16.5 Amendments, Changes and Modifications. This Lease may be amended,  
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changed, modified, altered or terminated only with the written consent of the  
parties hereto.

16.6 Execution Counterparts. This Lease may be executed in several  
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counterparts, each of which shall be an original and all of which shall  
constitute but one and the same instrument.

16.7 Applicable Law. This Lease shall be governed exclusively by the  
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applicable laws of the State of New Hampshire.

16.8 Surrender of the Premises. Except as otherwise provided in this  
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Lease, Lessee shall, upon the expiration or termination of this Lease for any  
reason whatsoever, surrender the Premises to Lessor in good order, condition and  
repair, except for reasonable wear and

-18-

tear, fire, taking or other casualty, including wear and tear resulting from the  
elements and free of all lessees and personal property of Lessee.

16.9 Exhibits. Each exhibit attached to this Lease shall be incorporated  
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into and be a part of this Lease.

16.10 Subordination.  
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16.10.a This Lease shall be subordinate to any mortgage, deed of  
trust, or any other hypothecation for security now or hereafter placed upon the  
Premises and to any and all advances made on the security thereof and to all  
renewals, modifications, consolidations, replacements and extensions thereof.  
Lessor shall cause any mortgage holder to provide a non-disturbance agreement to  
Lessee containing commercially reasonable terms and conditions.

16.10.b Lessee agrees to execute any documents reasonably required to  
effectuate such subordination or to make this Lease prior to the lien of any  
mortgage or deed of trust, as the case may be.

17. Options to Renew.

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Provided it be not at the time in default beyond applicable grace or cure periods in the payment of rent or in the performance of any of its other obligations hereunder, and provided no other event of default beyond applicable grace or cure periods shall have occurred and not have been cured, Lessee, upon not less than six (6) months' written notice to Lessor, may renew this Lease for two (2) additional terms of five (5) years each. Such renewal term shall be upon the same terms and conditions of this Lease.

18. Estoppel Certificate.

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Each party agrees, from time to time, within fifteen (15) days of receipt of written request by the other party to execute, acknowledge and deliver to the requesting party, a statement in writing certifying that:

18.1 this Lease is unmodified and in full force and effect; or,

18.2 if there have been modifications, that this Lease is in full force and effect as modified and stating the modifications; and,

18.3 whether or not Lessee has any defense, offsets or counterclaims against its obligations to pay the rent and other monies hereunder and to perform its other covenants under this Lease; and,

-19-

18.4 the dates to which the rent has been paid and the amount of any prepaid rent.

Any such statement, delivered pursuant to this paragraph, may be relied upon by any prospective purchaser or mortgagee of the Premises, any prospective assignee of any mortgage or encumbrance upon the Premises, or any prospective assignees or sublessee of Lessee's interests under this Lease.

19. Hazardous Materials

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Lessor shall defend, indemnify and hold Lessee harmless from and against all loss, cost, expense or damages Lessee, its stockholders, officers, directors or employees (herein, "indemnified parties") may suffer or incur as a result of the discharge, release, generation, storage or disposal of any Hazardous Substances on or about the Premises or on any property adjacent thereto prior to the commencement of the Term of this Lease.

For purposes of this Lease Hazardous Materials shall mean oil and petroleum products and all hazardous or toxic substances, all substances which, because of their quantitative concentration, or their chemical, radioactive, flammable, explosive, infectious or other characteristics, constitute or may reasonably be expected to constitute or contribute to a danger or hazard to public health, safety or welfare or to the environment, including, without limitation, any asbestos (whether or not friable) any asbestos-containing materials, waste oils, solvents and chlorinated oils, polychlorinated biphenyl's (PCBs) and chemical, biological and radioactive wastes, and any other substances or any hazardous or toxic wastes or substances which are included under or regulated by any Environmental Laws.

For purposes of this Lease Environmental Laws shall mean all federal, state or local laws, rules and regulations (whether now existing or hereafter enacted or promulgated, as they may be amended from time to time), and all judicial or decisional law, pertaining to Hazardous Materials, environmental regulations, contamination by Hazardous Materials, clean-up of Hazardous Materials or disclosures relating to Hazardous Materials, and any judicial or administrative interpretation thereof, including any judicial or administrative orders or judgments including, without limitation: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601 et seq. ("CERCLA"); the Federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. ("RCRA"); Superfund Amendments and Reauthorization Act of 1986, Public Law No. 99-499 ("SARA"); Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq. ("TSCA"); and all state superlien or environmental clean-up or disclosure statutes in the state in which the Property is located.



CLOSING BOOK

STATE STREET BANK AND TRUST COMPANY  
REVOLVING LINE OF CREDIT  
AND  
TERM LOAN  
TO  
PC CONNECTION, INC.  
("Borrower")

March 31, 1997

STATE STREET BANK AND TRUST COMPANY  
REVOLVING LINE OF CREDIT  
AND  
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March 31, 1997

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DOCUMENTATION INDEX  
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I. DUE DILIGENCE  
-----

1. Secretary's Certificate Re: Articles of Incorporation and Bylaws;  
Directors' Borrowing Resolutions and Officers' and Directors' Incumbency
2. Articles of Incorporation Certified by New Hampshire Secretary of State
3. Certificate of Legal Existence
4. UCC-11 Search Results (Borrower)
  - NH Secretary of State
  - Milford (NH) Town Clerk
  - Keene (NH) City Clerk
  - Marlow (NH) City Clerk
  - Ohio Secretary of State
  - Clinton County (OH) Clerk
5. Insurance Certificates for Borrower (On ACCORD Forms 25-S and 27),  
including property, casualty and extended coverage, comprehensive general  
liability, products liability, worker's compensation, and directors and  
officers liability with Bank, successors and assigns named as lender loss  
payee
6. Legal Opinion of Borrower's Counsel
7. Inventory Financing Subordination Agreements, as Amended
  - IBM Corporation
  - Deutsch Financial Services Corporation

II. LOAN DOCUMENTS  
-----

8. Amended and Restated Commercial Loan Agreement
9. Revolving Credit Note
10. Term Note

11. Amended and Restated Security Agreement
12. UCC-1 Financing Statements
  - New Hampshire Secretary of State
  - Milford, NH Town Clerk
  - Hillsborough County Registry of Deeds
  - Cheshire County Registry of Deeds
  - Ohio Secretary of State
  - Clinton County Recorder (OH)
13. Borrower Collateral Assignment of Leasehold Rights and Landlord's Waiver and Consent
  - Marlow NH
  - Keene NH
  - Milford NH
  - Wilmington NH
14. Borrower's Certificate re Milford Lease
15. Participation Agreements
  - Fleet Bank - NH
  - Keybank
16. Participation Certificates with Addenda
17. RSA 399-B Disclosure Statement
18. Closing Statement/Disbursement Authorization
19. Letter re Conditions of Closing

-2-

AMENDED AND RESTATED  
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 COMMERCIAL LOAN AGREEMENT  
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AGREEMENT dated as of March 31, 1997 by and between PC CONNECTION, INC., a New Hampshire corporation having its principal office at 528 Route 13, Milford, New Hampshire 03055 (the "BORROWER"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts banking corporation having its principal office at 225 Franklin Street, Boston, Massachusetts 02110 (the "BANK").

WHEREAS, the Bank and the Borrower are parties to a certain Revolving Credit Agreement dated as of December 10, 1993, as amended by four (4) certain amendments to said Revolving Credit Agreement and Related Loan Documents (as defined in the Revolving Credit Agreement, as amended) dated as of December 15, 1994, November 1, 1995, March 1, 1996 and November 14, 1996, respectively (collectively, the "Original Loan Agreement");

WHEREAS, pursuant to the Original Loan Agreement, the Bank has extended to the Borrower a revolving credit in the maximum principal amount of Twenty Two Million Five Hundred Thousand Dollars (\$22,500,000.00) (the "Original Revolving Credit") and a Bullet Loan (as defined in the Original Loan Agreement) in the principal amount of Five Million Dollars (\$5,000,000.00);

WHEREAS, the Borrower has requested that the Bank (1) increase the Original Revolving Credit in favor of the Borrower to the maximum principal amount of Thirty Million Dollars (\$30,000,000.00), to be increased to Forty Million Dollars (\$40,000,000.00) after March 1, 1998, and (2) make a five-year term loan to Borrower in the principal amount of Five Million Dollars (\$5,000,000.00) (loans under the revolving credit and the term loan are individually a "Loan" and collectively, the "Loans");

WHEREAS, the Bank has agreed to establish such an increased revolving credit and term loan, subject to the terms and conditions hereof; and,

WHEREAS, this Agreement sets forth the terms and conditions of the Loans and amends and restates in its entirety the Original Loan Agreement.

IN CONSIDERATION THEREOF, the parties hereto agree as follows:

ARTICLE I  
DEFINITIONS AND ACCOUNTING TERMS  
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SECTION 1.01. DEFINED TERMS. As used in this Agreement, the following

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terms have the following meanings (terms defined in the singular to have the same meaning when used in the plural and vice versa):

"Account Receivable" or "Account" means any right to payment for goods sold  
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or leased or for services rendered which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance.

"Agreement" means this Amended and Restated Commercial Loan Agreement, as  
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amended, supplemented, or modified from time to time.

"Bank's Prime Rate" means the rate of interest announced by the Bank in  
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Boston from time to time as its "Prime Rate".

"Borrowing Base" means as of any time the percentages set by the Bank of  
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the Borrower's Qualified Certified Accounts and Qualified Inventory as of such time, all as determined by the Bank in its sole discretion, which determination shall be final and binding upon the Borrower, against which and only against which the Bank will make loans pursuant to Section 2.01 of this Agreement. Until changed by the Bank, the Borrowing Base is the lesser of (i) Thirty Million Dollars (\$30,000,000.00) through March 1, 1998, increasing to Forty Million Dollars (\$40,000,000.00) thereafter or (ii) the sum of (x) Seventy Five  
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Percent (75%) of the Qualified Certified Accounts and (y) Fifty Percent (50%) of Qualified Inventory, subject to the following qualifications: In no event shall the total amount advanced hereunder against Qualified Inventory exceed Fifteen Million Dollars (\$15,000,000.00) through March 1, 1998 and Twenty Million Dollars (\$20,000,000.00) thereafter; and in no event shall the Borrowing Base exceed the sum of Thirty Million Dollars (\$30,000,000.00) through March 1, 1998 and Forty Million Dollars (\$40,000,000.00) thereafter. The Bank reserves the right in its sole discretion and upon reasonable prior notice (i) to modify the percentage of Qualified Inventory included in the Borrowing Base or the total amount which may be advanced against Qualified Inventory or (ii) to eliminate Qualified Inventory entirely from the Borrowing Base.

"Business Day" means any day other than a Saturday, Sunday or legal holiday  
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on which banks in Boston, Massachusetts are open for the conduct of a substantial part of their commercial banking business, and in the case of Libor Rate Loans (as defined below), any day that is a Business Day as described above that is also a day for trading by and between banks in United States Dollar deposits in the London interbank eurodollar market.

"Certificate" shall refer to the certificate as to collateral described in  
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Section 2.08 hereof, and shall include any accompanying certificates or documents.

"Certified Account" means an Account Receivable which has been listed in a  
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Certificate delivered by the Borrower to the Bank pursuant to the provisions of Section 2.08 hereof.

-2-

"Collateral" means all property which is subject or is to be subject to the  
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Lien granted by the Loan Documents.

"Commitment" means the Bank's agreement to make Loans to the Borrower under

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the Revolving Credit, at the Bank's discretion, in the amounts and in the manner referred to herein.

"Debt" means (1) indebtedness or liability for borrowed money or for the  
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deferred purchase price of property or services (including trade obligations); (2) obligations as lessee under capital leases; (3) current liabilities in respect of unfunded vested benefits under any plan; (4) obligations under letters of credit issued for the account of any Person; (5) all guaranties, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any Person, or otherwise to assure a creditor against loss, excluding any volume purchase requirements; and (6) obligations secured by any Lien on property owned by the Borrower, whether or not the obligations have been assumed by Borrower.

"Default" means any of the events specified in Section 8.01, whether or  
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not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Disqualified Account" means a Certified Account in respect of which any of  
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the following events shall have occurred: (i) such Certified Account shall have become past due under the original terms thereof on the ninety-first (91st) day from the billing invoice date; (ii) any of the goods which gave rise thereto shall have been returned, rejected, not accepted, repossessed, lost or damages, or any dispute with respect to such Certified Account or to such goods shall have arisen between the Borrower and the account debtor thereon; (iii) any Account where the Debtor therein has become insolvent or (iv) the Bank shall have excluded such Certified Account pursuant to the provisions of Section 2.09 hereof.

"Event of Default" means any of the events specified in Section 8.01,  
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provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Head Office" means the principal office of the Bank at 225 Franklin  
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Street, Boston, Massachusetts 02110.

"Inventory" means Inventory as defined in the Security Agreement of even  
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date between the Borrower and the Bank.

"Liens" means any mortgage, deed of trust, pledge, security interest,  
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hypothecation, deposit arrangement, encumbrance, lien (statutory or other), pre or

-3-

post-judgment attachment or preference, or other security agreement or encumbrance of any kind of nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction to evidence any of the foregoing).

"Loan Documents" means this Agreement, the Revolving Credit Note, the Term  
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Note, the Amended and Restated Security Agreement and all other related documents and instruments executed and delivered by Borrower to the Bank, as described on Exhibit A and all of even date herewith, and all extensions and  
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modifications thereof, and supplements thereto.

"Note" means, individually and collectively, the Revolving Credit Note and  
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the Term Note as defined in Sections 2.01 and 2.02, respectively, herein.

"Obligations" means all of Borrower's Debt to Bank and all of Borrower's



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other liabilities to Bank of every kind, nature and description, direct or indirect, secured or unsecured, joint, several, joint and several, absolute or contingent, due or to become due, now existing or hereafter arising, regardless of how such Debt liability arises or by what agreement or instrument it may be evidenced, or whether evidenced by any agreement or instrument, including, but not limited, to the Revolving Credit as defined in Section 2.01, any other Debt or liability of Borrower under this Agreement or any other Loan Document or under any other financing agreement between Bank and Borrower.

"Operating Account" means the primary operating account of the Borrower.  
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"Permitted Exceptions" means prior liens and other Liens, which the  
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Borrower is permitted to grant, either by the provisions of this Agreement or any other Loan Document, or as described in Exhibit B.  
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"Person" means an individual, partnership, corporation, business trust,  
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joint stock company, trust, unincorporated association, joint venture, governmental authority, or other entity of whatever nature.

"Qualified Certified Account" means a Certified Account not disqualified  
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and not excluded pursuant to Section 2.09 below.

"Qualified Inventory" means Inventory valued at the lower of cost on a  
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"first-in/first-out" basis or fair market value, which is owned and held by Borrower at its facilities in Milford, New Hampshire or its leased warehouse space in Keene, New Hampshire, or Wilmington, Ohio, for sale in the ordinary course of Borrower's business as presently conducted by it and which is subject to a valid and prior, fully

-4-

perfected security interest of the Bank, free of all security interests or liens of any other person, and which is not disqualified and not excluded pursuant to Section 2.12 below.

SECTION 1.02. ACCOUNTING TERMS. All accounting terms not specifically  
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defined herein shall be construed in accordance with Generally Accepted Accounting Principles (GAAP) consistent with that applied in the preparation of the financial statements referred to in Section 5.08, and utilizing the definitions provided in Article VII, and all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles, except interim financial data which may be subject to year-end adjustments.

ARTICLE II  
AMOUNT AND TERMS OF THE LOANS  
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SECTION 2.01. REVOLVING CREDIT. The Bank may from time to time make loans  
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to the Borrower, and Borrower may borrow and re-borrow, under the Revolving Credit and pursuant to the terms of this Agreement, and Borrower's obligations to repay such loans shall be evidenced by the Revolving Credit Note (the "Revolving Credit Note") of even date, in the form attached hereto as Exhibit C,  
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in an aggregate amount not to exceed the lesser of (a) Thirty Million Dollars (\$30,000,000.00) through March 1, 1998, increasing to Forty Million Dollars (\$40,000,000.00) thereafter, or (b) the Borrowing Base, and as further limited as provided in Sections 2.08, 2.09 and 2.12 below (the "Revolving Credit"). The Revolving Credit specifically includes a maximum principal amount of \$30,000,000.00 through March 1, 1998 and \$40,000,000.00 thereafter under this section. The principal amount of loans under the Revolving Credit shall be due and payable in full, and the Bank's Commitment shall expire, on May 31, 1999.

SECTION 2.02. TERM LOAN. The Bank shall extend to the Borrower a term  
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loan in the principal amount of Five Million Dollars (\$5,000,000.00) ("Term

Loan"), which Term Loan shall be evidenced by a Term Promissory Note (the "Term Note") of even date in the form attached hereto as Exhibit D, pursuant and

subject to the terms of this Agreement.

SECTION 2.03. NOTICE AND MANNER OF BORROWING. The Borrower shall give the

Bank a request for borrowing (which may be by telephone or telefax and shall be effective upon receipt) of any loans under the Revolving Credit, specifying the date and amount thereof, which shall be in increments of not less than \$10,000.00 (\$1,000,000.00 in the case of a Libor Rate Loan), provided that if the Borrower and the Bank have implemented the Bank's Liquidity Management Control System II respecting the Borrower's deposit and borrowing relationship with the Bank, Loans shall be made in accordance with such system. Not later than 2:00 P.M. on the date of such Loan and upon fulfillment of the applicable conditions set forth in Article III,

-5-

the Bank will make such Loan available to Borrower in immediately available funds by crediting the amount thereof to Borrower's Operating Account with the Bank.

SECTION 2.04. INTEREST; PAYMENTS.

2.04.1 REVOLVING CREDIT. On the outstanding and unpaid principal amount of

the Revolving Credit, Borrower shall pay interest to the Bank at an interest rate per annum equal to (i) Bank's Prime Rate in effect from time to time or (ii) the Adjusted Libor Rate plus two and one half percent (2.5%) per annum, as provided below. During any period in which the Bank's Prime Rate applies to any portion of Loans under the Revolving Credit, each time the Bank's Prime Rate changes, the interest rate on that portion of the Note shall change contemporaneously with such change. Interest shall be calculated on the basis of actual days elapsed and a 360-day year. That portion of the Revolving Credit bearing interest at the Bank's Prime Rate shall be referred to as the "Prime Rate Loan". The term "Adjusted Libor Rate" shall mean a rate, applicable to any Interest Period, determined by the Bank as the rate of interest quoted by the Bank as the prevailing rate per annum at which deposits in U.S. dollars are offered to the Bank by first-class banks in the London interbank Eurodollar market in which it regularly participates for the requested Loan amount and Interest Period, adjusted for capital, reserves, taxes and similar assessments against the Bank in connection with offering such a pricing option. Any portion of the Revolving Credit bearing interest based upon the Adjusted Libor Rate, with applicable margin, shall be referred to as the "Libor Rate Loan."

Interest on the Revolving Credit shall be paid in immediately available funds or the Borrower's Operating Account shall be debited by the Bank on the first business day of each month.

2.04.2 TERM LOAN. On the outstanding and unpaid principal amount of the

Term Loan, Borrower shall pay interest to the Bank at an interest rate per annum equal to (i) Bank's Prime Rate in effect from time to time plus one half of one percent (1/2%) (the "Term Variable Rate") or (ii) the Bank's Cost of Funds Rate, as defined below, plus three percent (3%) per annum. Each time the Prime Rate changes, the interest rate on that portion of the Term Loan bearing interest at the Term Variable Rate shall change contemporaneously with such change. Interest shall be calculated on the basis of actual days elapsed and a 360-day year. That portion of the Term Loan bearing interest at the Term Variable Rate shall be referred to as the "Prime Rate Loan". The term "Cost of Funds Rate" shall mean the rate quoted by the Bank as its applicable cost of funds for the amount and Interest Period of the requested Loan, provided, however that the determination as to the Bank's cost of funds shall be made solely by the Bank and absent manifest error, this determination shall be binding and conclusive. Any portion of the Term Loan bearing interest based upon the Cost of Funds Rate, with applicable margin, shall be referred to as the "COF Rate Loan".

-6-

2.04.3 PAYMENTS. The principal balance of the Revolving Credit shall be

due on the date stated in this Revolving Credit Note and principal shall be paid in installments on the Term Loan as stated in the Term Note. Principal outstanding on the Loans shall bear interest at the rates provided above, as selected by the Borrower following adequate notice to the Bank, which in the case of the making of or conversion to a Libor Rate Loan, shall not be less than three (3) Business Days prior to the commencement of any Libor Rate Loan and in the case of a COF Rate Loan shall not be less than one (1) Business Day prior to the commencement of any COF Rate Loan. Interest on all Loans shall be payable monthly in arrears on the first Business Day of each month and in the case of Libor Rate Loans and COF Rate Loans shall also be payable at the end of the applicable Interest Period. The Borrower, upon three (3) Business Days' prior notice to the Bank, may elect to convert all or a portion of a Prime Rate Loan under the Revolving Credit to a Libor Rate Loan in increments of \$1,000,000.00 and upon one (1) Business Days' prior notice to the Bank, may elect to convert all or a portion of the Term Loan to a COF Rate Loan in increments of \$1,000,000.00. Unless the Bank receives an adequate contrary election regarding conversion of any portion of the Loan, the Bank may continue such Loan as, or convert such principal to, a Prime Rate Loan upon the expiration of the Interest Period.

2.04.4 INTEREST PERIOD. With respect to each Libor Rate Loan or COF Rate

Loan, "Interest Period" shall mean the period commencing on the date of the making or continuation of or conversion to such Libor Loan or COF Rate Loan and ending one, two, three, six or twelve months thereafter in the case of Libor Rate Loans and at the end of the applicable Interest Period in the case of COF Rate Loans, as the Borrower may elect in the applicable Notice of Borrowing or Conversion provided that:

(i) any Interest Period that would otherwise end on a day that it is not a Business Day shall be extended to the next succeeding Business Day unless, in the case of a Libor Rate Loan or COF Rate Loan, such Business Day falls in the next calendar month, in which case such Interest Period shall end on the immediately preceding Business Day.

(ii) any Interest Period applicable to a Libor Rate Loan or COF Rate Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(iii) any Interest Period which would otherwise end after the maturity date of the applicable Note shall end on the maturity date; and

-7-

(iv) no Interest Period applicable to a Libor Rate Loan or COF Rate Loan shall have a duration of less than one month; and if any Interest Period applicable to such Loans would be for a shorter period, such Interest Period shall not be available hereunder.

2.04.5 PREPAYMENT. The Borrower may prepay any Prime Rate Loan in whole or

in part without premium or penalty. Any prepayment of a Libor Rate Loan or COF Rate Loan is subject to the terms of Section 2.04.7. Prepayments of the Term Loan shall be applied to installments of principal in the inverse order of their due date.

2.04.6 SPECIAL PROVISIONS REGARDING LIBOR RATE LOANS. In the event that:

(i) on any date on which Adjusted Libor Rate would otherwise be set the Bank shall have determined in good faith (which determination shall be final and conclusive) that adequate and fair means do not exist for ascertaining such Adjusted Libor Rate, or

(ii) at any time the Bank shall have determined in good faith (which determination shall be final and conclusive) that:

(a) the making or continuation of or conversion of any Loan to a Libor Rate Loan has been made impracticable or unlawful by (1) the occurrence of a contingency that materially and adversely affects the London interbank Eurodollar market or (2) compliance by the Bank in good

faith with any applicable law or governmental regulation, guideline or order or interpretation or change thereof by any governmental authority charged with the interpretation or administration thereof or with any request or directive of any such governmental authority (whether or not having the force of law); or

(b) the Adjusted Libor Rate shall no longer represent the effective cost to the Bank for U.S. dollar deposits in the London interbank market for deposits in which it regularly participates;

then, and in any such event, the Bank shall forthwith so notify the Borrower thereof. Until the Bank notifies the Borrower that the circumstances giving rise to such notice no longer apply, the obligation of the Bank to allow selection by the Borrower of the Adjusted Libor Rate shall be suspended. If at the time the Bank so notifies the Borrower, the Borrower has previously given the Bank notice with respect to a Libor Rate Loan but such Loan has not yet gone into effect, such notification shall be deemed to be void and the Borrower may borrow Prime Rate Loans.

-8-

Upon such date as shall be specified in such notice (which shall not be earlier than the date such notice is given) the Borrower shall, with respect to the outstanding Libor Rate Loan, prepay the same, together with interest thereon and any amounts required to be paid pursuant to Section 2.04.7, and may borrow a Prime Rate Loan in accordance with the terms hereof by telephone request.

All Adjusted Libor Rates shall be adjusted to reflect deposit requirements, reserves, capital, taxes and other charges assessed against the Bank in connection with the Bank's offering such a pricing option and the Borrower agrees to pay to the Bank any increase in cost or reduction in the rate of return realized by the Bank as a result of imposition of any of the foregoing which is not reflected in adjustments to the Adjusted Libor Rate.

2.04.7 UNSCHEDULED PAYMENTS. In the event of prepayment of any of the

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Libor Rate Loans or COF Rate Loans, including payment prior to the last day of the applicable Interest Period, either at the Borrower's initiative or upon the exercise by the Bank of its rights in the event of the Borrower's default, the Borrower agrees to pay to the Bank its lost net interest income resulting from the prepayment. Therefore, the Borrower's final prepayment to the Bank shall consist of the principal amount being prepaid, all interest owing up to the date of such prepayment or demand by the Bank, together with the Bank's lost net interest income, if any, computed as described below.

As of the date of prepayment, or as of the date of demand after default, the Bank will determine the interest rate differential between the rate stated in the Note being prepaid and the yield on a United States Government Treasury Note with the maturity closest to the Note as the same is reported in the The

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Wall Street Journal of that day (reporting the previous day's activity). In the  
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event that the rate differential so determined is such that the Treasury Note yield is greater than the Note yield, no lost net interest income shall be paid to the Bank, nor, in any event, shall any sum be owed by the Bank to the Borrower.

In the event that the rate differential so determined is such that the Note yield is greater than the Treasury Note yield, the difference shall be multiplied by the outstanding principal balance of the Note, computed monthly for the remaining term of the Note; the present value of such monthly computation shall be calculated and paid to the Bank as its lost net interest income. For the purpose of computing present value, the interest rate used for discounting shall be the bond equivalent yield of the six month United States Treasury Bill rate as reported in the Wall Street Journal of that day (reporting  
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the previous day's activity).

-9-

SECTION 2.04.8 INTEREST ON OTHER OBLIGATIONS. Any outstanding payment

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obligations of Borrower under the Loan Documents not covered by the Note shall bear interest at the Term Variable Rate.

SECTION 2.05. REVOLVING CREDIT NOTE. All Loans relative to the Revolving  
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Credit made by the Bank under this Agreement shall be evidenced by, and repaid with interest in accordance with, the Revolving Credit Note. The Bank is hereby authorized by the Borrower to endorse on any schedule attached to the Revolving Credit Note the amount of each Loan and of each payment of principal received by the Bank on account of the Revolving Credit or on any other schedule or record of the Bank, which endorsement shall, in the absence of manifest error, be prima facie evidence as to the outstanding balance of the Loans under the Revolving Credit made by the Bank; provided, however, that the failure to make such notation with respect to any Loan or payment shall not limit or otherwise affect the obligations of the Borrower under this Agreement or the Revolving Credit Note.

SECTION 2.06. COLLATERAL FOR THE LOANS. The Revolving Credit and the Term  
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Loan shall be secured by the security interests granted to the Bank by the Borrower under the Security Agreement and any of the other Loan Documents.

SECTION 2.07. METHOD OF PAYMENT. The Borrower shall make each payment  
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under this Agreement and under the Note not later than 2:00 P.M. on the date when due in lawful money of the United States to the Bank at the Head Office in immediately available funds. The Borrower hereby authorizes the Bank, if and to the extent payment is not made when due under this Agreement or under the Note, to charge from time to time against any account of the Borrower with the Bank, any amount so due. Whenever any payment to be made under this Agreement or under the Note shall be stated to be due on a Saturday, Sunday, or a public holiday, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of the payment of interest.

SECTION 2.08. CERTIFICATION OF COLLATERAL. At such times as the Bank may  
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request, but in any event at least monthly, the Borrower will deliver to the Bank a Certificate, in a form approved by the Bank: (a) listing the Borrower's then existing Accounts Receivable having been earned by performance and the book value of its Inventory; (b) containing such information in respect to such Accounts Receivable, Inventory and any other Collateral as the Bank may request; and (c) containing a calculation of the Borrowing Base as of the date of the Certificate. With each such Certificate, the Borrower will upon request by the Bank, furnish to the Bank such information as to each Account Receivable and item of Inventory identified on the Certificate as the Bank may request, together with a duplicate of the invoice, copies of the shipping documents or other evidence of delivery, all contracts, guaranties, orders and other documents the Bank, or, if the Bank at any time shall relieve the Borrower of the obligation to furnish such documents with such Certificates, the

-10-

Borrower will make such documents available for inspection by the Bank and will furnish same to the Bank upon request.

SECTION 2.09. EXCLUSION OF CERTAIN CERTIFIED ACCOUNTS FROM THE BORROWING  
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BASE. The Bank shall have the right in its sole discretion at any time and for  
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any reason to exclude any Certified Accounts from the Borrowing Base. The following is a partial listing of those types of accounts or accounts receivable which shall be deemed to be Disqualified Accounts reducing the Borrowing Base accordingly:

(a) Any account which is more than ninety (90) days past due from the billing invoice date as shown on the agings of Borrower's accounts receivable furnished to the Bank in accordance with Section 2.11 below.

(b) Any account which arises out of the sale by the Borrower of goods consigned or delivered to the Borrower on "sale or return" terms (whether or not compliance has been made with Section 2-326 of the Uniform Commercial Code in force within the state in which the collateral is located).

(c) Any account which arises out of any sale made on a "bill and hold," "dating" or "delayed shipment" basis.

(d) Any account owed by any customer whose principal place of business is not within the United States or the District of Columbia or the Commonwealth of Canada.

(e) Any account owed by any corporation or other entity which is related to the Borrower or is of common ownership with the Borrower or could be treated as a member of the same controlled group of corporations of which the Borrower is a member. For the purposes of this subsection the terms "Common Ownership" and "controlled group" shall be defined as having shareholders with fifty percent (50%) or more in interest.

(f) Any account as to which the account debtor holds or is entitled to any claim, credit, allowance, adjustment, counterclaim, set-off or charge back (arising out of the transaction(s) represented by the account or independently thereof) or which included terms under which the account debtor can return to the Borrower for credit or refund the goods giving rise to such account or accounts receivable other than by reason of express or implied warranties provided in the ordinary course of business or required by law.

(g) Any account which is owed by any person employed by, or a salesperson of, the Borrower.

-11-

(h) Any so-called "co-op receivable" or other account which constitutes a credit against payables owed by Borrower to the account debtor.

(i) Any account which the Bank in its sole commercially reasonable discretion considers unacceptable for any reason.

SECTION 2.10 [INTENTIONALLY DELETED]

SECTION 2.11. AGING REPORTS, OFF-SET REPORTS AND INVENTORY LISTING.  
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(a) At the time the first Certificate is delivered to the Bank pursuant to the provisions of Section 2.08 hereof, the Borrower will also deliver to the Bank an Aging Report, in a form approved by the Bank, giving an analysis by months (or such other periods as may be requested by the Bank) of the age of the Accounts Receivable listed in such Certificate. Thereafter, monthly or at shorter intervals as the Bank may request, but not more frequently than bi-weekly, the Borrower shall furnish similar Aging Reports covering all Accounts Receivable outstanding as of the date of such report. At such times as the Bank shall request, the Borrower will also furnish to the Bank an Off-Set Report, in a form approved by the Bank, setting forth all amounts owing by the Borrower to any account debtor listed in any Aging Report. Except as the Bank may otherwise require, such reports for a calendar month shall be delivered to the Bank not later than the tenth business day of the succeeding calendar month.

(b) At the same time as Borrower provides the foregoing Aging Report, Borrower shall provide to the Bank a summary inventory listing in a form approved by the Bank, covering all Inventory as of the date of such report.

SECTION 2.12. EXCLUSION OF CERTAIN INVENTORY FROM THE BORROWING BASE. The  
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Bank shall have the right in its sole and commercially reasonable discretion at any time and for any reason to exclude any Inventory from the Borrowing Base. The following Inventory will not, in any event, constitute Qualified Inventory:

(a) Inventory which is obsolete, not in good condition, not of merchantable quality or saleable in the ordinary course of business or which is subject to defects which would affect its market value;

(b) Supplies and packaging materials and labels;

(c) Inventory which Bank, in its sole discretion exercised in good faith, determines to be ineligible because of age, type, category, or quantity; and

(d) Inventory in the possession of any person other than the Borrower.

ARTICLE III  
CONDITIONS PRECEDENT  
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SECTION 3.01. Conditions Precedent to Initial Loans. The agreement of the  
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Bank to make the Term Loan and, at its discretion, the initial Loans under the  
Revolving Credit to the Borrower are subject to the condition precedent that the  
Bank shall have received on or before the day of such Loan each of the following  
in form and substance satisfactory to the Bank and its counsel:

(1) Notes. The Revolving Credit Note and the Term Note executed by the  
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Borrower;

(2) Security Agreement. Security Agreement duly executed by Borrower  
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together with acknowledgment copies of the Financing Statements (UCC-1) duly  
filed under the Uniform Commercial Code of all jurisdictions necessary or, in  
the opinion of the Bank, desirable to perfect the security interests created by  
the Security Agreement, or other evidence satisfactory to the Bank indicating  
that no party claims an interest in any of the Collateral except as set forth in  
the Permitted Encumbrances;

(3) Evidence of all Corporate Action by the Borrower. Certified (as of the  
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date of this Agreement) copies of all corporate action taken by the Borrower,  
including resolutions of its Board of Directors, authorizing the execution,  
delivery, and performance of the Loan Documents to which such Borrower is a  
party and each other document to be delivered pursuant to this Agreement;

(4) Incumbency and Signature Certificate of the Borrower. Certificates  
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(dated as of the date of this Agreement) of the Secretary of the Borrower  
certifying the names and true signatures of the officers of such Borrower  
authorized to sign the Loan Documents to which it is a party and the other  
documents to be delivered by the Borrower under this Agreement;

(5) Opinion(s) of Counsel for the Borrower. An opinion of Borrower's  
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counsel, dated as of the Closing Date in the form attached hereto as Exhibit E  
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and as to such other matters as the Bank may reasonably request.

(6) Conditional Assignment of Lease By Tenant with Landlord's Consent.  
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Conditional Assignment of Lease By Tenant with Landlord's Consent duly executed  
by each Landlord owning premises in which Borrower's Inventory is located.

(7) Other Documents. Such other documents or certificates as may be  
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reasonably requested by the Bank, or its counsel and/or as are required under  
the terms of this Agreement or any Loan Document.

ARTICLE IV  
REPRESENTATION AND WARRANTIES  
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The Borrower represents and warrants to the Bank that:

SECTION 4.01. Incorporation, Good Standing and Due Qualification. The  
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Borrower is a corporation duly incorporated, validly existing, and in good  
standing under the laws of the state of its incorporation; has the corporate  
power and authority to own its assets and to transact the business in which it  
is now engaged or proposed to be engaged in; and is duly qualified as a foreign  
corporation and is in good standing under the laws of each other jurisdiction in  
which such qualification is required.

SECTION 4.02. Corporate Power and Authority. The execution, delivery, and

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performance by the Borrower of the Loan Documents to which it is a party have been duly authorized by all necessary corporate action and do not and will not (1) require any consent or approval of the stockholders of such corporation, except such consents as have been obtained; (2) contravene such corporation's charter or bylaws; (3) to the best of its knowledge violate any provision of any law, rule, regulation (including, without limitation, Regulation U of the Board of Governors of the Federal Reserve System), the violation of which would have a material adverse effect on the business or operations of the Borrower or any order, writ, judgment, injunction, decree, determination, or award presently in effect having applicability to such corporation; (4) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease, or instrument to which such corporation is a party or by which it or its properties may be bound or affected; (5) result in, or require, the creation or imposition of any Lien upon or with respect to any of the properties now owned or hereafter acquired by such corporation, except to Bank; and (6) to the best of its knowledge cause such corporation to be in default under any such law, rule, regulation, or any such indenture, agreement, lease, or instrument which default would have a material and adverse effect on the business or operation of such corporation or under any order, writ, judgment, injunction, decree, determination or award.

SECTION 4.03. Legally Enforceable Agreement. This Agreement is, and each

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of the other Loan Documents when delivered under this Agreement will be, legal, valid, and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency, and other similar laws affecting creditors' rights generally.

SECTION 4.04. Financial Statements. No representation or statement by

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Borrower contained in the financial statements furnished by Borrower to the Bank

-14-

contains any untrue statement of material fact, or omits to state a material fact necessary to make it not misleading.

SECTION 4.05. Labor Disputes and Acts of God. Neither the business nor

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the properties of the Borrower have been affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy, or other casualty (whether or not covered by insurance) materially and adversely affecting such business or properties or the operation of the Borrower.

SECTION 4.06. Compliance. To the best of its knowledge, the Borrower has

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not materially violated, nor is the Borrower in material violation of, any applicable law or regulation, which violation would have a material and adverse effect on the business or operations of the Borrower, or any order, judgment, or decree. The Borrower is not a party to any contract or other agreement, or subject to any restrictions under its charter documents, bylaws or other corporate instrument, or subject to any order, judgment, rule, regulation, or decree of any court or governmental authority, which materially and adversely affects its business, properties, assets or financial condition or which restricts or otherwise limits its incurring of the Loan or its performance and observance of its Obligations. Neither the execution and delivery by Borrower, nor the compliance by Borrower with the terms and conditions of this Agreement or any Loan Document conflicts or will conflict with, constitutes or will constitute a default under, or results or will result in any violation of, the charter documents or By-laws of Borrower, any award of any arbitrator, any law, any order, judgment, rule, regulation or decree of any court or governmental authority, or any agreement or instrument to which Borrower is a party or any of its property is subject; nor does the same result nor will it result in the creation or imposition of any Lien upon any of its property except the Liens created by this Agreement or any other Loan Document.

SECTION 4.07. Litigation. Except as shown on Schedule 4.07, there is no

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pending or, to the Borrower's knowledge, threatened action or proceeding against



or affecting the Borrower before any court, governmental agency, or arbitrator which may, in any one case or in the aggregate, materially adversely affect the financial condition, operations, properties, or business of the Borrower or the ability of the Borrower to perform its Obligations under the Loan Documents to which it is a party.

SECTION 4.08. No Defaults on Outstanding Judgments or Orders. The

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Borrower has satisfied all judgments and the Borrower is not in default with respect to any judgment, writ, injunction, or decree of any court, arbitrator, or federal, state, municipal, or other governmental authority, commission, board, bureau, agency, or instrumentality, domestic or foreign.

-15-

SECTION 4.09. Ownership and Liens. The Borrower has good and clear record

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and marketable title to all properties and assets which it purports to own, including those reflected in the financial statements referred to in Section 5.08, free and clear of all mortgages, liens, pledges, charges, security interests and encumbrances, other than those being granted to the Bank, pursuant hereto, if any; and those reflected on Exhibit B as a Permitted Exception.

SECTION 4.10. Subsidiaries and Ownership of Stock. There are currently no

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subsidiaries of Borrower and, except as set forth on Exhibit F, Borrower has no  
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investments in the stock or securities of any other corporation, firm, trust or other entity.

SECTION 4.11 Operation of Business. To the best of its knowledge, the

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Borrower possesses all licenses, permits, franchises, patents, copyrights, trademarks, and trade names, or rights thereto, to conduct its business substantially now as conducted and as presently proposed to be conducted, and the Borrower is not in any material violation of any rights of others with respect to any of the foregoing.

SECTION 4.12 Taxes. To the best of its knowledge, the Borrower has filed

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all income tax returns, excise tax returns and other tax returns (federal, state, and local) required to be filed and has paid all taxes, assessments, and governmental charges and levies thereon to be due, including interest and penalties. To the Borrower's knowledge, no audit or investigation is presently being conducted with regard to any tax return or tax obligation of Borrower.

SECTION 4.13 ERISA. No employee pension benefit plan or other plan

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(within the meaning of Section 3(2) of the Employees Retirement Income Security Act of 1974, as amended ("ERISA") which is or was sponsored at any time, by Borrower or any member of a controlled group of corporations within the meaning of Section 414(b) of the Internal Revenue Code of 1986, as amended (the "CODE"), or any member of a group of commonly controlled trades or businesses (whether or not incorporated) within the meaning of Section 414(c) of the Code of which any Borrower is a member ("PLAN"): (i) has incurred an "ACCUMULATED FUNDING DEFICIENCY" (within the meaning of Section 302(a)(2) of ERISA) which could result in a liability of Borrower under Section 409 of ERISA or Section 4975 of the Code or pursuant to any agreement or statute with respect to liabilities incurred by any person under such sections, which liability materially affects the financial condition of Borrower. No material liability to the Pension Benefit Guaranty Corporation ("PBGC"), to a Plan, or to any participant in or beneficiary of a Plan has been or, to the present knowledge of Borrower, is expected to be incurred with respect to any Plan by Borrower and there has been no event or conditions which presents a risk of termination of any Plan by PBGC. None of the following events has occurred or, to the knowledge of Borrower, is expected to occur, with respect to any multi-employer plan (as that term is defined in Section 3(37) of ERISA) to which any Borrower or any

-16-

member of a controlled group of corporations or any member of a group of commonly controlled trades or businesses of which Borrower is a member,

contributes on behalf of its employees (the "CONTRIBUTING EMPLOYERS") which has resulted or could result in any material liability of the Borrower to PBGC, to such multi-employer plan, or to any participant in or beneficiary of such multi-employer plan; (i) a withdrawal, either complete or partial, from any such plan (within the meaning of Section 4203 or Section 4205, respectively, of ERISA) by a Contributing Employer; (ii) the termination of any such plan; or (iii) the recording of a reorganization index (as defined by Section 4241 of ERISA) in excess of zero by any such plan.

SECTION 4.14 Hazardous Material. To the best of Borrower's knowledge,  
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neither the Borrower, nor any person for whose conduct the Borrower is responsible, ever:

- (a) owned, occupied, or operated a site on which any hazardous material or oil was or is stored, transported, or disposed of (the terms "site," and "hazardous material" are used in this Agreement with the meanings or context given those terms in New Hampshire Revised Statutes Annotated Chapter 147-B), except for oil leakage from a fuel tank which has been cleaned up and removed from the site; or
- (b) directly or indirectly transported, or arranged for the transport of any hazardous material or oil, except for photochemicals which are transported and disposed of in accordance with applicable environmental laws; or
- (c) caused or been legally responsible for any release or threat of release of any hazardous material or oil; or
- (d) received notification from any federal, state, or other governmental authority of any potential or known release or threat of release of any hazardous material or oil from any site owned, occupied, or operated by the Borrower or any person for whose conduct the Borrower is responsible, and/or of the incurrence of any expense or loss by such governmental entity.

SECTION 4.15 Patents/Licenses/Trademarks. Exhibit G annexed hereto is a  
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listing of all patents and/or patents pending, trademarks, licenses and similar agreements in which the Borrower has an interest.

SECTION 4.16 Debt. Exhibit H is a complete and correct list of all credit  
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agreements, indentures, purchase agreements, guaranties, leases (requiring lease payments in the aggregate of \$250,000.00 annually), and other investments,

-17-

agreements, and arrangements presently in effect providing for or relating to extensions of credit (including agreements and arrangements for the issuance of letters of credit or for acceptance financing) in respect of which the Borrower is in any manner directly or contingently obligated (other than for materials, supplies and services entered into in the ordinary course of business); and the maximum principal or face amounts of credit in question, which are outstanding and which can be outstanding, are correctly stated, and all Liens of any nature given or agreed to be given as security therefor are correctly described or indicated in such Schedule.

ARTICLE V  
AFFIRMATIVE COVENANTS  
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So long as the Revolving Credit Note and/or the Term Note shall remain unpaid or the Bank shall have any Commitment under this Agreement, the Borrower will:

SECTION 5.01. Maintenance of Existence. Preserve and maintain its  
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corporate existence and good standing in the jurisdiction of its incorporation, and qualify and remain qualified as a foreign corporation in each jurisdiction in which such qualification is required.

SECTION 5.02. Maintenance of Records. Keep adequate records and books of  
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account, in which complete entries will be made in accordance with GAAP consistently applied, subject to year end adjustments, reflecting all financial transactions of the Borrower, including complete records of all accounts of Borrower, as defined in the Massachusetts Uniform Commercial Code.

SECTION 5.03. Maintenance of Properties. Maintain, keep, and preserve all  
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of its properties (tangible and intangible) necessary or useful in the proper conduct of its business in good working order and condition, ordinary wear and tear and fully insured-against casualty excepted. Borrower shall maintain in full force and effect all rights, patents, licenses, permits and privileges necessary for the proper conduct of its business.

SECTION 5.04. Conduct of Business. Continue to engage in an efficient and  
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economical manner in a business of the same general type as conducted by it on the date of this Agreement.

SECTION 5.05. Maintenance of Insurance. Maintain insurance with  
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financially sound and reputable insurance companies or associations in such amounts and covering such risks as the Bank shall reasonably require and as are usually carried by companies engaged in the same or a similar business and similarly situated, which insurance may provide for reasonable deductibility from coverage thereof.

-18-

SECTION 5.06. Compliance With Laws. Comply in all material respects with  
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applicable laws, rules, regulations, and orders, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments, and governmental charges imposed upon it or upon its property, noncompliance with which would have a material and adverse effect on the business and operations of the Borrower, subject, however, to the provisions of Section 5.13 herein.

SECTION 5.07. Right of Inspection. At any reasonable time and from time  
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to time, permit the Bank or any agent or representative thereof to examine and make copies of and abstracts from the records and books of account of and visit the properties of the Borrower and to discuss the affairs, finances, and accounts of the Borrower with any of their respective officers and directors and the Borrower's independent accountants. In addition to the foregoing, field examinations by the Bank's internal field examiners shall be conducted on an ongoing basis and the cost of the examinations will be borne by the Borrower to the extent of \$1,500.00 annually.

SECTION 5.08. Reporting Requirements. Furnish to the Bank:  
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(1) Monthly Financial Statements. As soon as available and in any event  
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within thirty (30) days after the end of each month of the Borrower, balance sheets of the Borrower as of the end of such month, statements of income and retained earnings, and of cash flows of the Borrower for the (i) month then ended, and (ii) cumulative through the month then ended for all months in the Borrower's current fiscal year, with supporting cost of sales and selling, general and administrative expense schedules, all in reasonable detail and stating in comparative form the respective figures for the corresponding dates and periods in the prior fiscal year and all prepared in accordance with GAAP consistently applied, subject to year end adjustments;

(2) Annual Financial Statements. As soon as available and in any event  
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within ninety (90) days after the end of each fiscal year of the Borrower, a balance sheet of the Borrower as of the end of such fiscal year and a statement of income and retained earnings of the Borrower for such fiscal year, and a statement of cash flow of the Borrower for such fiscal year, all in reasonable detail and stating in comparative form the respective figures for the corresponding date and period in the prior fiscal year and all prepared in accordance with GAAP consistently applied and certified by independent accountants selected by the Borrower reasonably satisfactory to Bank;

(3) Notice of Litigation. Promptly after the commencement thereof, notice  
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of all actions, suits, and proceedings before any court or governmental  
department, commission, board, bureau, agency, or instrumentality, domestic or  
foreign, affecting the Borrower, which, if determined adversely to the Borrower,  
could have a material adverse effect on the financial condition, properties, or  
operations of the Borrower;

-19-

(4) Notice of Defaults and Events of Default. As soon as possible and in  
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any event within ten (10) days after the occurrence of (i) any event or  
circumstance which with the passage of time would constitute a Default or an  
Event of Default or (ii) a Default or an Event of Default, a written notice  
setting forth the details of such event, circumstance, Default, or Event of  
Default and the action which is proposed to be taken by the Borrower with  
respect thereto;

(5) General Information. Such other information respecting the condition  
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or operations, financial or otherwise, of the Borrower as the Bank may from time  
to time reasonably request;

(6) Monthly Aging of Receivables and Inventory Listing. The Borrower shall  
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furnish to the Bank such reports as are required pursuant to Section 2.11  
herein; and

(7) Officer Certification. At the end of each quarter of Borrower's fiscal  
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year, the Borrower will, at the time of delivery to the Bank of the reports  
referred to in Sections 5.08(2) and (6), deliver to the Bank certificates signed  
by its chief financial officer or treasurer certifying for that quarter then  
ended that each such officer has reviewed the provisions of this Agreement and  
stating in his opinion, if such be the fact, that the Borrower has not been and  
is not in default as to any of the covenants and agreements of the Borrower  
contained in this Agreement, or in the event of any such default, setting forth  
the details thereof.

SECTION 5.09. Deferred Compensation Payments. Pay or cause to be paid  
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when due all amounts necessary to fund in accordance with their terms all such  
deferred compensation plans, whether now in existence or hereafter created, and  
the Borrower will not withdraw from participation in, permit the termination or  
partial termination of, or permit the occurrence of any other event with respect  
to, any deferred compensation plan maintained for the benefit of its employees  
under circumstances that could result in liability to the Pension Benefit  
Guaranty Corporation, or any of its successors or assigns, or to the entity  
which provides funds for such deferred compensation plan.

SECTION 5.10. Additional Documents. From time to time, execute and  
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deliver to the Bank all such other and further instruments or documents and take  
or cause to be taken all such other and further action as the Bank may  
reasonably request in order to effect and confirm or vest more securely in the  
Bank all rights contemplated in this Agreement.

SECTION 5.11. Use of Proceeds. Use the proceeds of the Revolving Credit  
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and the Term Loan for ongoing working capital needs of the Borrower. The  
Borrower acknowledges the Loans have been and shall be made available subject to  
the terms hereof, based upon the financial well-being of the Borrower and that  
such

-20-

credit would not be extended without the support (financial and otherwise)  
of the Borrower in such amounts and to such degree as provided in this  
Agreement.

SECTION 5.12. Acquisition of Equipment and Other Capital Assets. Furnish  
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written notice to the Bank, at least quarterly, and which notice may be provided on monthly financial statements, of the purchase or other acquisition by Borrower of any and all equipment or other assets with a purchase price or value equal to or in excess of \$100,000.00, together with such purchase and invoice material as the Bank shall reasonably require.

SECTION 5.13 Payment of Taxes and Claims. Pay when due all taxes,

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assessments, governmental charges or levies imposed upon it or its income for services, labor, materials and supplies, in each of such cases which, if unpaid, might become a Lien or charge upon any of its properties or assets; but Borrower shall not be required to pay any such tax, assessment, charge, levy or claim so long as (1) the validity thereof shall be contested in good faith by appropriate proceedings, (2) no proceedings in foreclosure or for the sale of any property of Borrower on account of any such tax, assessment, charge, levy or claim shall have been commenced (or such proceedings shall have been stayed pending the disposition of such contest of validity), (3) Borrower shall have set aside on its books adequate reserves with respect thereto and (4) such tax, assessment, charge, levy or claim shall not have caused a material, adverse effect on the Borrower's financial condition.

SECTION 5.14 ERISA. Promptly notify Bank if at any time (i) a Plan incurs

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an "ACCUMULATED FUNDING DEFICIENCY" (as defined in Section 412(a) of the Code), whether or not waived; (ii) a "REPORTABLE EVENT" (within the meaning of Section 4043(b) of ERISA) occurs with respect to a Plan; (iii) Borrower engages in any transaction which violates Section 406 or Section 407 of ERISA or which could result in a liability under Section 409, 501, or 502 of ERISA or Section 4975 of the Code or pursuant to any agreement or statute with respect to liabilities incurred by any person under such sections, which liability could materially affect the financial condition of such Borrower; (iv) Borrower incurs a material liability to the PBGC or to any participant in or beneficiary of a Plan with respect to any Plan; (v) an event occurs or a condition arises which presents a risk of termination of any Plan by the PBGC; (vi) Borrower is notified by the Internal Revenue Service or the Department of Labor that the Plan is not or may not be qualified under Section 401(a) of the Code or that the trust established thereunder is not or may not be exempt from tax under Section 501(a) of the Code; or (vii) any of the following events occurs with respect to any multi-employer plan (as defined in Section 3(37) of ERISA) to which the Borrower or any member of a group of commonly controlled trades or businesses within the meaning of Section 414(c) of the Code of which any Borrower is a member or contributes on behalf of its employees: (A) a withdrawal, either complete or partial, from any such plan (within the meaning of Section 4204 or Section 205, respectively, of ERISA) by a Contributing Employer or a decision by a Contributing

-21-

Employer to withdraw completely or partially from such plan; (B) the termination of any such plan; or (C) the recording of a reorganization index (as defined by Section 4241 of ERISA) in excess of zero by any such plan.

SECTION 5.15 Right to Negotiate. Designate and appoint and the Borrower

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hereby designates and appoints the Bank or its designee as Borrower's attorney with power, (A) after an Event of Default to receive, endorse, assign and deliver in the name of the Bank or such Borrower all checks, drafts and other instruments for payment of money relating to the Collateral, and the Borrower hereby waives notice of presentment, protest and nonpayment of any instrument so endorsed; to endorse Borrower's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment of Collateral that may come into Bank's possession; and (B) to sign Borrower's name on all financing statements or any other documents or instruments deemed necessary or appropriate by Bank to preserve, protect or perfect Bank's security interest in the Collateral and to file same; and to do any and all other acts and things necessary to implement the rights granted to the Bank in this Agreement. All acts of Bank or its designee as said attorney are hereby ratified and approved, and said attorney shall not be liable for any acts of omission or commission, nor for any error of judgment or mistake of fact of law, unless done maliciously or as a result of gross negligence. The power granted herein is coupled with an interest and is irrevocable so long as the Loan remains unpaid.

SECTION 5.16 Bank Accounts. Maintain its primary operating bank accounts,

including depository accounts, with the Bank.

SECTION 5.17 Hazardous Materials.  
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(a) Provide the Bank with written notice upon the Borrower's obtaining knowledge of any potential or known release or threat of release of any hazardous material or oil at or from any site owned, occupied, or operated by the Borrower or by any person for whose conduct the Borrower is responsible; upon the Borrower's receipt of any notice to such effect from any federal, state, or other governmental authority; and/or upon the Borrower's obtaining knowledge of any incurrence of any expense or loss by such governmental authority in connection with the assessment, containment, or removal of any hazardous material or oil for which expense or loss the Borrower may be liable; and

(b) In the event of a release of hazardous material or oil, take all such action, including, without limitation, the conducting of engineering tests (at the expense of the Borrower) to confirm that no hazardous material or oil is or ever was stored on any site owned, occupied, or operated by the Borrower or by any person for whose conduct the Borrower is responsible.

-22-

SECTION 5.18 Comply with Other Covenants and Warranties. Conform, adhere  
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to, and observe all covenants and warranties contained in any other agreement between the Bank and the Borrower, or instrument furnished by the Borrower to the Bank.

SECTION 5.19 Payment of Other Obligations. The Borrower will punctually  
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and promptly make all payments and perform all other obligations which may be required of it with respect to any indebtedness (whether for money borrowed, goods purchased, services rendered or however such indebtedness may otherwise arise) owing to persons, firms or corporations other than the Bank and the nonpayment of which would have a material adverse effect on Borrower's operations or finances, including, without limitation, indebtedness which may be secured by a security interest in assets of the Borrower or property of the Borrower, and all obligations under the terms of any lease in which the Borrower is the lessee. The provisions of this section shall not preclude the Borrower from contesting in good faith and diligently prosecuting any such indebtedness or obligation.

ARTICLE VI  
NEGATIVE COVENANTS  
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So long as the Revolving Credit Note and/or the Term Note shall remain unpaid or the Bank shall have any Commitment under this Agreement, the Borrower will not without the Bank's prior written consent:

SECTION 6.01. Liens. Create, incur, assume, or suffer to exist, or permit  
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any Subsidiary (if any exist) to create, incur, assume, or suffer to exist, any Lien upon or with respect to any of its properties, now owned or hereafter acquired, except for the following (the "Permitted Encumbrances"):

(1) Liens in favor of the Bank;

(2) Liens for taxes or assessments or other government charges or levies if not yet due and payable or, if due and payable, if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained;

(3) Judgment and other similar Liens arising in connection with court proceedings, provided the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate proceedings, provided the final outcome does not adversely affect the financial condition of the Borrower in a material way;

(4) Purchase-money Liens on any property hereafter acquired or the assumption of any Lien on property existing at the time of such acquisition, or a Lien

incurred in connection with any conditional sale or other title retention agreement of a capital lease; and

(5) Permitted Exceptions, as identified in Exhibit B.  
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SECTION 6.02. Mergers, Etc. Without the Consent of the Bank. Merge or  
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consolidate with (unless it is the survivor corporation) or sell, assign, lease, or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any Person, or acquire all or substantially all of the assets or the business of any Person, or permit any Subsidiary (if at any time existing) to do so, provided the Borrower may sell its PC TV Production assets;

SECTION 6.03. Leases. Without the prior written consent of the Bank,  
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create, incur, assume, or suffer to exist, or permit any Subsidiary (if at any time existing) to create, incur, assume or suffer to exist, any obligation as lessee for the rental or hire of any real or personal property, except: (1) leases existing on the date of this Agreement and any extensions, amendments or renewals thereof; (2) leases, of which the total annual obligation under any such lease is not more than \$250,000.00, with the aggregate annual obligations of all such new leases (i.e., leases not in effect at the time of this Agreement) not to exceed \$500,000.00.

SECTION 6.04. Sale of Assets. Sell, lease, assign, transfer, or otherwise  
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dispose of, any of its now owned or hereafter acquired assets (including, without limitation, shares of stock and indebtedness of Subsidiaries, receivables, and leasehold interests), except: (1) for inventory disposed of and accounts receivable collected in the ordinary course of business; (2) the sale or other disposition of assets no longer used or useful in the conduct of its business; (3) any sale of other assets, provided any such single sale does not exceed \$ 100,000.00 and the aggregate proceeds of all such sales in any one fiscal year do not exceed \$250,000.00; or (4) the sale of the PC TV Production assets.

SECTION 6.05. Guaranties Etc. Assume, guarantee, endorse, or otherwise be  
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or become directly or contingently responsible or liable, or permit any Subsidiary (if at any time existing) to assume, guarantee, endorse, or otherwise be or become directly or contingently responsible or liable (including, but not limited to, an agreement to purchase any obligation, stock, assets, goods, or services, or to supply or advance any funds, assets, goods, or services, or to maintain or cause such Person to maintain a minimum working capital or net worth, or otherwise to assure the creditors of any Person against loss) for obligations of any Person, except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business (product warranties for purposes of this section shall not be deemed guaranties).

SECTION 6.06. Transactions With Affiliates. Enter into any transaction,  
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including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any affiliate, or permit any Subsidiary (if at any time existing) to enter into any transaction, including, without limitation, the purchase, sale, or exchange of property or the rendering of any service, with any affiliate, or the making of advances to any affiliates except in the ordinary course of business upon fair and reasonable terms no less favorable to the Borrower or such subsidiary than they would obtain in a comparable arm's length transaction with a person not an affiliate. As used herein, an "affiliate" is any person which is under common ownership with or a member of the same controlled group as Borrower.

SECTION 6.07. Dividends. Declare or pay any dividends; or purchase,  
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redeem, retire, or otherwise acquire for value any of its capital stock now or

hereafter outstanding except purchase of shares of decedent shareholder pursuant to a stock purchase agreement between Borrower and its shareholders approved by the Bank; or make any distribution of assets to its stockholders as such whether in cash, assets, or obligations of the Borrower; or allocate or otherwise set apart any sum for the payment of any dividend or distribution on or for the purchase, redemption, or retirement of, any shares of its capital stock; or make any other distribution by reduction of capital or otherwise in respect of any shares of its capital stock; or permit any of its Subsidiaries to purchase or otherwise acquire for value any stock of the Borrower or another Subsidiary, except that (1) the Borrower may declare dividends in an amount sufficient to pay shareholders' federal income taxes for profits, if the Borrower has elected S Corporation status, and provided, (i) no Event of Default has occurred and remains outstanding; and (ii) such distribution does not result in the violation of any financial covenant of Borrower contained in this Agreement or otherwise result in the occurrence of an Event of Default; and (2) with the written consent of the Bank, which shall not be unreasonably withheld, the Borrower may purchase or otherwise acquire shares of its capital stock by exchange for or out of the proceeds received from a substantially concurrent issue of new shares of its capital stock.

SECTION 6.08. Investments. Except as permitted by Section 6.06 above,

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make, or permit any Subsidiary to make, any loan or advance to any Person (except loans to employees which, in the aggregate, shall not exceed \$100,000.00 at any time), or purchase or otherwise acquire, or permit any Subsidiary to purchase or otherwise acquire, any capital stock, assets, obligations, or other securities of, make any capital contribution to, or otherwise invest in or acquire any interest in any Person in excess of \$100,000.00, except: (1) direct obligations of the United States or any agency thereof with maturities of one year or less from the date of acquisition; (2) commercial paper of a domestic issuer rated at least "A-1" by Standard & Poor's Corporation or "P-1" by Moody's Investor's Service, Inc.; (3) certificates of deposit with maturities of one year or less from the date of acquisition issued by any commercial bank having capital and surplus in excess of One Hundred Million

-25-

(\$100,000,000.00) Dollars; and (4) stock, obligations, or securities received in settlement of debts (created in the ordinary course of business) owing to the Borrower or any Subsidiary.

SECTION 6.09 Additional Debt. Except as otherwise provided above, issue

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evidence of indebtedness or create, assume, become contingently liable for, or suffer to exist bank debt in addition to Debt to the Bank; provided, however, that the Borrower may incur liabilities which are incurred or arise in the ordinary course of Borrower's business other than Debt arising with respect to money borrowed or the issuance of letters of credit for the account of the Borrower (other than letters of credit issued by the Bank) both of which shall be prohibited.

SECTION 6.10 Stock of Subsidiary (if any). Sell or otherwise dispose of

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any shares of capital stock of any Subsidiary, except in connection with a transaction permitted under Section 6.02, or permit any Subsidiary to issue any additional shares of its capital stock, except director's qualifying shares.

SECTION 6.11 Name. Change its name without prior written notification to

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the Bank.

SECTION 6.12 Place Of Business. Without prior written notice to the Bank,

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open or operate any place of business other than those identified in Exhibit I.  
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ARTICLE VII  
FINANCIAL COVENANTS  
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SECTION 7.01. Minimum Working Capital. Borrower shall maintain Working

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Capital at the following minimum levels at all times during the fiscal quarters and fiscal years listed below, to be tested quarterly at the end of each fiscal



quarter and fiscal year on the basis of the financial statements provided by Borrower to the Bank pursuant to Section 5.08 of this Agreement for the reported period (the "Financial Statements"). As used herein, "Working Capital" is calculated by deducting Current Liabilities from Current Assets as shown on the Financial Statements. As used herein, "Current Assets" means, at any date as of which the amount thereof shall be determined, all assets of Borrower which should properly be classified as current in accordance with GAAP, and "Current Liabilities" means, at any date as of which the amount thereof shall be determined, all liabilities of the Borrower which should properly be classified as current in accordance with GAAP, except that the Term Loan shall not be included in the definition of "Current Liabilities" for any period prior to maturity of such loan.

-26-

| Fiscal Quarter (FQ)<br>or Fiscal Year (FY)<br>Ending<br>----- | Minimum<br>Working Capital (\$)<br>----- |
|---|--|
| 03/31/97 (FQ)   | 12,500,000                               |
| 06/30/97 (FQ)   | 12,500,000                               |
| 09/30/97 (FQ)   | 12,500,000                               |
| 12/31/97 (FY)   | 15,000,000                               |
| 03/31/98 (FQ)   | 15,000,000                               |
| 06/30/98 (FQ)   | 15,000,000                               |
| 09/30/98 (FQ)   | 15,000,000                               |
| 12/31/98 (FY)   | 17,500,000                               |
| 03/31/99 (FQ)   | 17,500,000                               |
| 06/30/99 (FQ)   | 17,500,000                               |
| 09/30/99 (FQ)   | 17,500,000                               |
| 12/31/99 (FY)   | 20,000,000                               |
| 03/31/00 (FQ)   | 20,000,000                               |
| 06/30/00 (FQ)   | 20,000,000                               |
| 09/30/00 (FQ)   | 20,000,000                               |
| 12/31/00 (FY)   | 22,500,000                               |
| 03/31/01 (FQ)   | 22,500,000                               |
| 06/30/01 (FQ)   | 22,500,000                               |
| 09/30/01 (FQ)   | 22,500,000                               |
| 12/31/01 (FY)   | 25,000,000                               |
| 03/31/02 (FQ)   | 25,000,000                               |

SECTION 7.02. Leverage Ratio. Borrower at all times shall maintain a

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ratio of Total Debt (as hereinafter defined) to Tangible Capital Base not exceeding the ratios set forth for the fiscal quarters, months and fiscal years listed below, to be tested at the end of each fiscal quarter and year on the basis of the Financial Statements. "Total Debt" means total liabilities (including capital leases), all as determined in accordance with GAAP from the Financial Statements except that accounts payable corresponding to intransit inventory shall not be included in total liabilities. "Tangible Capital Base" means total shareholders' equity less intangible assets, all as determined in accordance with GAAP from the Financial Statements.

-27-

| FQ Mth or FY<br>Ending<br>----- | Leverage Ratio<br>Not to Exceed<br>----- |
|---------------------------------|--|
|---------------------------------|--|

|               |        |
|---------------|--------|
| 03/31/97 (FQ) | 3.25:1 |
| 06/30/97 (FQ) | 3.25:1 |
| 09/30/97 (FQ) | 3.25:1 |
| 10/31/97      | 4.00:1 |
| 11/30/97      | 4.00:1 |
| 12/31/97 (FY) | 3.25:1 |

For each subsequent year, the so-called Leverage Ratio shall remain the same as of the end of each fiscal quarter and fiscal year, including October and November, listed above.

SECTION 7.03. Net Income. Borrower shall have Net Income (as hereinafter

defined) as of the end of each fiscal quarter and fiscal year listed below at least in the amount indicated below for such fiscal quarter and fiscal year, which amounts shall be cumulative with no losses for any fiscal quarter. "Net Income" means total income from all sources for the fiscal quarter or year, less cost of goods sold, taxes, depreciation and amortization expense, and such other items treated as expenses under GAAP for such period, and less the amount distributed to shareholders during such period to cover income taxes for undistributed profits (if Borrower has elected S Corporation Status), all as determined from the Financial Statements in accordance with GAAP.

| FQ or FY<br>Ending<br>----- | Minimum<br>Net Income (\$)<br>(Cumulative)<br>----- |
|-----------------------------|---|
| 03/31/97 (FQ)               | 500,000   |
| 06/30/97 (FQ)               | 1,500,000   |
| 09/30/97 (FQ)               | 2,500,000   |
| 12/31/97 (FY)               | 5,000,000   |

For each subsequent year, Borrower's Net Income shall remain the same as of the end of each fiscal quarter and fiscal year listed above.

SECTION 7.04. Tangible Capital Base. Borrower shall maintain a Tangible

Capital Base at least in the amounts indicated below for the fiscal quarters and fiscal

-28-

years listed below, to be tested at the end of each such fiscal quarter and fiscal year on the basis of the Financial Statements.

| FQ or FY<br>Ending<br>----- | Minimum<br>Capital Base (\$)<br>----- |
|-----------------------------|---------------------------------------|
| 03/31/97 (FQ)               | 17,000,000                            |
| 06/30/97 (FQ)               | 18,000,000                            |
| 09/30/97 (FQ)               | 19,000,000                            |
| 12/31/97 (FY)               | 21,500,000                            |
| 03/31/98 (FQ)               | 22,000,000                            |
| 06/30/98 (FQ)               | 23,000,000                            |
| 09/30/98 (FQ)               | 24,000,000                            |
| 12/31/98 (FY)               | 26,500,000                            |
| 03/31/99 (FQ)               | 27,000,000                            |
| 06/30/99 (FQ)               | 28,000,000                            |
| 09/30/99 (FQ)               | 29,000,000                            |

|               |            |
|---------------|------------|
| 12/31/99 (FY) | 31,500,000 |
| 03/31/00 (FQ) | 32,000,000 |
| 06/30/00 (FQ) | 33,000,000 |
| 09/30/00 (FQ) | 34,000,000 |
| 12/31/00 (FY) | 36,500,000 |
| 03/31/01 (FQ) | 37,000,000 |
| 06/30/01 (FQ) | 38,000,000 |
| 09/30/01 (FQ) | 39,000,000 |
| 12/31/01 (FY) | 41,500,000 |
| 03/31/02 (FQ) | 42,000,000 |

SECTION 7.05. [INTENTIONALLY DELETED]

SECTION 7.06. Compliance Certificate. Borrower shall report and certify

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to Bank its compliance with the financial covenants hereinabove within thirty (30) days of the end of each fiscal quarter and within sixty (60) days of the end of each fiscal year on the form attached hereto as Exhibit J.

-29-

ARTICLE VIII  
EVENTS OF DEFAULT  
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SECTION 8.01. EVENTS OF DEFAULT. If any of the following events ("EVENTS

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OF DEFAULT") shall occur:

(1) The Borrower should fail to pay the principal of, or interest on, the Revolving Credit Note or the Term Note as and when due and payable and which default shall continue for ten (10) days and it shall not be required that Bank give notice of such default; or

(2) Any material representation or warranty made or deemed made by the Borrower in this Agreement or any of the other Loan Documents, or which is contained in any certificate, document, opinion, or financial or other statement furnished at any time under or in connection with any Loan Document shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(3) The Borrower shall fail to perform or observe any material term, covenant, or agreement contained in any Loan Document on its part to be performed or observed which is not cured within thirty (30) days of Borrower obtaining knowledge of such breach (including, but not limited to, knowledge pursuant to notice from the Bank) without the Bank required to give any additional notice thereof to Borrower; or

(4) The Borrower shall (a) fail to pay any indebtedness for borrowed money or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise and whether or not related to this transaction or owed to the Bank or to another) and after the expiration of the applicable grace period, if any; (b) fail to file any tax return or to pay or remit any tax when due (subject to rights to file extensions and/or contest in good faith as provided in Section 5.13 above); or (c) fail to perform or observe any material term, covenant, or condition on its part to be performed or observed under any agreement or instrument relating to any such indebtedness, when required to be performed or observed (after allowance for applicable cure periods, if any), if the effect of such failure to perform or observe is to accelerate, or to permit the acceleration after the giving of notice or passage of time, or both, of the maturity of such indebtedness, whether or not such failure to perform or observe shall be waived by the holder of such indebtedness; or any such indebtedness shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof and in any such event shall not be cured within thirty (30) days without the Bank required to give additional notice thereof to Borrower; or

-30-

(5) The Borrower (a) shall be unable to, or shall admit in writing its inability to pay its debts as such debts become due; or (b) shall make an assignment for the benefit of creditors, petition or apply to any tribunal for the appointment of a custodian, receiver, or trustee for it or a substantial part of its assets; or (c) shall commence any proceeding under any bankruptcy, reorganization, arrangements, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or (d) shall have any such petition or application filed or any such proceeding commenced against it in which an order for relief is entered or adjudication or appointment is made and is not dismissed or stayed within sixty (60) days; or (e) by any act or omission shall indicate its consent to, approval of, or acquiescence in any such petition, application, or proceeding, or order for relief, or the appointment of a custodian, receiver, or trustee for all or any substantial part of its properties; or (f) shall suffer any custodianship, receivership, or trusteeship and any such proceeding not instituted by Borrower shall not be dismissed or stayed within forty-five (45) days; or

(6) One or more judgments, decrees, or orders for the payment of money in excess of an aggregate of Two Hundred Thousand Dollars (\$200,000.00) in the aggregate shall be rendered against the Borrower and such judgments, decrees, or orders shall continue unsatisfied and in effect for a period of sixty (60) consecutive days without being vacated, discharged, satisfied, or stayed or bonded pending appeal; or

(7) The Security Agreement shall at any time after execution and delivery by the Borrower and for any reason cease (a) to create a valid and perfected first priority security interests in and to the property purported to be subject to such Security Agreement (other than by reason of expiration of a financing statement which the Bank fails to continue) or (b) to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by the Borrower, or the Borrower shall deny it has any further liability or obligation under such Security Agreement, or the Borrower shall fail to perform any of its material obligations under such Security Agreement and such failure is not cured within the applicable grace period, if any; or

(8) The occurrence of any change in ownership of the Borrower whereby there is a change in fifty percent (50%) or greater of the stock ownership from the date of this Agreement, except transfers of stock ownership between David Hall and Patricia Gallup or their family members or related family trusts so long as David Hall and Patricia Gallup retain voting control of the Borrower; or

(9) Any material change in the condition or affairs (financial or otherwise) of the Borrower or any guarantor which in the reasonable opinion of the Bank will impair its security or materially increase its risk; or

-31-

(10) Borrower shall suffer any material loss, theft, substantial damage, sale or encumbrance to or of any property constituting collateral for the Obligations not fully covered by insurance;

then, in any such event, the Bank may terminate the Commitment and the Obligations of the Borrower to the Bank under this Agreement and the other Loan Documents shall, at the Bank's option, become immediately due and payable.

ARTICLE IX  
MISCELLANEOUS  
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SECTION 9.01. AMENDMENTS, ETC. No amendment, modification, termination,  
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or waiver of any provision of any Loan Document to which the Borrower is a party, nor consent to any departure by the Borrower from any Loan Document to which it is a party, shall in any event be effective unless the same shall be in writing and signed by the party to be charged, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose given.

SECTION 9.02. NOTICES, ETC. All notices and other communications provided  
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for under this Agreement and under the other Loan Documents to which the Borrower is a party shall be in writing and mailed or hand delivered:

If to the Borrower: PC CONNECTION, INC.  
528 Route 13  
Milford, New Hampshire 03055  
Attn: Wayne L. Wilson  
Senior Vice President and Chief Operating Officer

If to the Bank: State Street Bank and  
Trust Company  
225 Franklin Street, M-2  
Boston, Massachusetts 02110-2804  
Attn: Thomas J. Pyles, Vice President

or such other address as shall be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section 9.02. Any demand, notice, or other correspondence to Bank or Borrower, or any other party in connection with this Agreement shall be deemed received two (2) days following deposit in the United States mail and sent by registered or certified mail, postage prepaid, the day when sent if delivered by hand or transmitted by facsimile with a copy by registered or certified mail, or the day following deposit with a nationally recognized overnight courier with all costs prepaid, and in each case addressed to the parties at their respective addresses set forth above.

-32-

SECTION 9.03. CONSENT. The Borrower may take any action herein prohibited  
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or omit to perform any act required to be performed by the Borrower if the Borrower shall obtain the Bank's prior written consent to each such action or omission to act. No waiver on the Bank's part on any one occasion shall be deemed a waiver on any other occasion. The Bank shall not be deemed to have waived any of its rights hereunder unless such waiver shall be in writing and duly signed by an authorized officer of the Bank.

SECTION 9.04. NO WAIVER; REMEDIES. No failure on the part of the Bank to  
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exercise, and no delay in exercising, any right, power, or remedy under any Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any right under any Loan Document preclude any other or further exercise thereof or the exercise of any other right. The remedies provided in the Loan Documents are cumulative and not exclusive of any remedies provided by law. The Bank shall not be required to have recourse to any collateral before enforcing its rights or remedies against the Borrower. The Borrower hereby waives presentment and protest of any instrument and any notice thereof.

SECTION 9.05. SUCCESSORS AND ASSIGNS. This Agreement shall be binding  
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upon and inure to the benefit of the Borrower and the Bank and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights under any Loan Document to which the Borrower is a party without the prior written consent of the Bank.

SECTION 9.06. COSTS, EXPENSES AND TAXES. The Borrower will pay or  
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reimburse the Bank, on demand, for all expenses (including, without limitation, reasonable counsel fees and expenses) incurred or paid by the Bank in connection with the preparation of the Loan Agreement and all related documents, administration of the Loans, enforcement by the Bank of its rights as against the Borrower or any other person primarily or secondarily liable to the Bank hereunder or under any other Loan Document; the administration, supervision, protection or realization on any collateral held by the Bank as security for any obligation of the Borrower or any other person primarily or secondarily liable with respect thereto; and in the defense of any action against the Bank with respect to its rights or liabilities hereunder or under any other Loan Documents. In addition, the Borrower shall pay document preparation costs, including but not limited to costs associated with participating a forty percent (40%) share in the Loan, and any and all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of any of the Loan Documents and the other documents to be delivered under any such Loan Documents, and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

SECTION 9.07. RIGHT OF SETOFF. Upon the occurrence and during the

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continuance of any Event of Default the Bank is hereby authorized at any time and from time to time, without notice to the Borrower (any such notice being expressly waived by the Borrower), to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Bank to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement, the Revolving Credit Note or the Term Note, or any other Loan Document, irrespective of whether or not the Bank shall have made any demand under this Agreement, the Revolving Credit Note or the Term Note, or such other Loan Document and although such obligations may be unmaturred. The Bank agrees promptly to notify the Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application. The rights of the Bank under this Section 9.07 are in addition to other rights and remedies (including, without limitation, other rights of setoff) which the Bank may have.

SECTION 9.08. WAIVER. The Borrower hereby waives notice of nonpayment,

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demand, presentment, protest and notice thereof with respect to any and all instruments, notice of acceptance hereof, notice of loans or advances made, credit extended, collateral received or delivered, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein. No delay or omission on Bank's part in exercising any right, remedy or option shall operate as a waiver of such or any other right, remedy or option or of any default.

SECTION 9.09. GOVERNING LAW. This Agreement, the Revolving Credit Note,

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the Term Note, and all other documents hereunder have been made and delivered in the Commonwealth of Massachusetts and shall be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts and the Borrower submits to the jurisdiction of Massachusetts for all purposes with respect to this Agreement and all other documents hereunder and its relationship with the Bank.

SECTION 9.10. SEVERABILITY OF PROVISIONS. Any provision of any Loan

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Document which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of such Loan Documents or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 9.11. HEADINGS. Article and Section headings in the Loan

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Documents are included in such Loan Documents for the convenience of reference only and shall not constitute a part of the applicable Loan Documents for any other purpose.

SECTION 9.12. TERMINATION. This Agreement shall continue to be fully

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operative until all transactions entered into, rights or interest created or Obligations incurred have been fully disposed of, concluded or liquidated. The security interests, Lien and rights granted to Bank hereunder or under any other Loan Document shall continue in full force and effect until all Obligations have been satisfied.

SECTION 9.13. MAXIMUM INTEREST. No provision of this Agreement, the

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Revolving Credit Note or the Term Note, or any other Loan Document shall require the payment or permit the collection of interest in excess of the maximum permitted by law. If any such excess interest is provided for herein or in the Revolving Credit Note or the Term Note or any other Loan Document, Borrower shall not be obligated to pay such excess, and the right to demand the payment

of any such excess is hereby waived by Bank.

SECTION 9.14. SURVIVAL. All representations, warranties, covenants,
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waivers and agreements contained herein shall survive the termination hereof
unless otherwise provided.

SECTION 9.15. UNUSED LINE FEE. Borrower shall pay to the Bank quarterly
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in arrears a fee equal to one-fourth of one percent (1/4 of 1%) of the average
daily amount by which the maximum commitment under the Revolving Credit exceeds
the actual principal amount outstanding thereunder on a daily basis during each
fiscal quarter, as determined by the Bank.

SECTION 9.16. PARTICIPATING LOANS. The Bank may sell, transfer or grant
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participations in the Note to one or more financial institutions without the
prior written consent of the Borrower, and the Borrower agrees that any
transferee or participant shall be entitled to the benefits of Sections 2.04.5,
2.04.7, 5.07 and 9.07 to the same extent as if such transferee or participant
were the Bank hereunder, provided that (a) any such sales shall not affect the
rights and duties of the Bank hereunder to the Borrower, (b) the Bank shall
retain at all times an interest in the Loans greater than fifty percent (50%)
unless an Event of Default has occurred and is continuing, (c) the Bank shall
retain responsibility for and perform all servicing and administration functions
respecting the Loans, and (d) the Borrower may, for all purposes of this
Agreement, treat the Bank as the person entitled to exercise all rights
hereunder and under the Note and to receive all payments with respect thereto.
Notwithstanding the foregoing, the Bank may assign its interest in the Note to
any Federal Reserve Bank as collateral.

SECTION 9.17. INDEMNIFICATION. Borrower agrees to defend, indemnify and
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hold harmless Bank from and against any and all liabilities, obligations,
losses, damages, penalties, actions, judgments, suits, costs, expenses
(including attorney fees), or disbursements of any kind or nature whatsoever
which may be imposed on, incurred by or asserted against Bank in connection with
any investigative,

administrative or judicial proceeding (whether or not Bank shall be designated a
party thereto) or any other claim by a third party relating to or arising out of
the Loan Documents or any actual or proposed use of proceeds of the Loans or any
activities of the Borrower; provided that Bank shall not have the right to be
indemnified under this Section for its own gross negligence or willful
misconduct as determined by a court of competent jurisdiction.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed
by their respective officers hereunto duly authorized, as of the date first
above written and shall take effect as a sealed instrument.

WITNESS: BORROWER:
PC CONNECTION, INC.

/s/ Curtis W. Little, Jr. By: /s/ Wayne L. Wilson
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Wayne L. Wilson
Senior Vice President

BANK:
STATE STREET BANK AND TRUST
COMPANY

/s/ Curtis W. Little, Jr. By: /s/ Thomas J. Pyles
-----
Thomas J. Pyles
Vice President

REVOLVING CREDIT NOTE  
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\$40,000,000.00

Boston, Massachusetts  
March 31, 1997

For value received, PC CONNECTION, Inc. (the "Borrower") hereby promises to pay to STATE STREET BANK AND TRUST COMPANY (the "Bank"), or order, at the head office of the Bank at 225 Franklin Street, Boston, Massachusetts 02110, on May 31, 1999 the principal amount of up to FORTY MILLION DOLLARS (\$40,000,000.00), or such lesser amount as shall have been advanced and not have been prepaid, in immediately available funds, together with interest on the unpaid principal hereof. Interest shall be payable monthly in arrears on the last day of each month beginning on April 30, 1997 at the variable rate per annum equal to the Bank's Prime Rate, in effect from time to time. "Prime Rate" shall mean the rate of interest announced by the Bank in Boston from time to time as its "Prime Rate." Each change in such interest rate shall take effect simultaneously with the corresponding change in such Prime Rate. Interest shall be computed on the basis of a 360-day year for the actual number of days elapsed, including holidays or other days on which the Bank is not open for the conduct of banking business. The Borrower may also elect a LIBOR based rate of interest equal to the Adjusted LIBOR Rate plus two and one-half percent (2.5%) per annum to apply to all or a portion of the outstanding principal hereunder in accordance with, and subject to the terms and conditions of, the Loan Agreement (defined below). The "Adjusted LIBOR Rate" is defined in the Loan Agreement.

All loans hereunder and all payments on account of principal and interest hereof shall be recorded by the Bank and prior to any transfer hereof, endorsed on Schedule I attached hereto and incorporated herein. The entries on the records of the Bank (including any appearing on this Note) shall be prima facie evidence of amounts outstanding hereunder.

Overdue payments of principal (whether at stated maturity by acceleration or otherwise), and, to the extent permitted by law, overdue interest, shall bear interest, compounded monthly and payable on demand in immediately available funds, at a rate per annum equal to four percent (4%) above the Bank's Prime Rate in effect from time to time.

This Note is issued pursuant to, and entitled to the benefits of, and is subject to, the provisions of the Amended and Restated Commercial Loan Agreement of even date herewith by and between the Borrower and the Bank (such agreement, as it may from time to time hereafter be amended or extended, the "Loan Agreement"), wherein it is defined as the "Revolving Credit Note" and the indebtedness evidenced thereby the "Revolving Credit," but neither this reference to the Loan Agreement nor any provision thereof shall affect or impair the absolute and unconditional obligation

of the Borrower of this Note to pay the principal of and interest on this Note as herein provided.

The indebtedness evidenced by this Note is secured by a security interest in all of Borrower's assets and property interests granted to the Bank pursuant to an Amended and Restated Security Agreement of even date herewith by and between Bank and Borrower, as the same may be from time to time amended or extended.

In case an Event of Default (as defined in the Loan Agreement) shall occur, the aggregate unpaid principal of plus accrued interest on this Note shall become or may be declared to be due and payable in the manner and with the effect provided in the Loan Agreement.

The Borrower may at its option prepay all or any part of the principal of this Note before maturity upon the terms provided in the Loan Agreement, including in particular Sections 2.04.5 and 2.04.7 of the Loan Agreement.

Any deposits or other sums at any time credited by or due from the Bank to the Borrower or any endorser or guarantor hereof and any securities or other property of the Borrower or any endorser or guarantor at any time in the possession of the Bank may at all times be held and treated as collateral for the payment of this Note and any and all other liabilities (direct or indirect, absolute or contingent, sole, joint or several, secured or unsecured, due or to



become due, now existing or hereafter arising) of the Borrower to the Bank. Regardless of the adequacy of collateral, the Bank may apply or set-off such deposits or other sums against such liabilities at any time in the case of makers but only with respect to matured liabilities in the case of endorsers and guarantors.

The Borrower hereof hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement hereof and consents that this Note may be extended from time to time and that no such extension or other indulgence, and no substitution, release or surrender of collateral and no discharge or release of any other party primarily or secondarily liable hereon, shall discharge or otherwise affect the liability of the Borrower, endorser or guarantor. No delay or omission on the part of the Bank in exercising any right hereunder shall operate as a waiver of such right or of any other right hereunder, and a waiver of any such right on any one occasion shall not be construed as a bar to or waiver of any such right on any future occasion.

NOTWITHSTANDING the face amount of this Note, the maximum amount of loans which may be made under the Loan Agreement which are evidenced by this Note shall not exceed Thirty Million Dollars (\$30,000,000.00) through March 1, 1998.

-2-

This note is executed and delivered in substitution and replacement of the Demand Note - Grid - Fluctuating Interest dated November 14, 1996, made by Borrower to the Bank's order in the original principal amount of up to \$22,500,000.00 and does not constitute a discharge of the indebtedness evidenced thereby or a novation of the underlying loan transaction.

This instrument shall have the effect of an instrument executed under seal and shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts (without giving effect to any conflicts of laws provisions contained therein).

WITNESS: PC CONNECTION, INC.

/s/ Curtis W. Little, Jr. By: /s/ Wayne L. Wilson  
-----  
Wayne L. Wilson  
Senior Vice President and  
Chief Operating Officer

Address:  
528 Route 13, Milford NH 03055

-3-

TERM PROMISSORY NOTE  
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\$5,000,000.00 U.S.

Boston, Massachusetts  
March 31, 1997

FOR VALUE RECEIVED, the undersigned, PC CONNECTION, INC., a New Hampshire corporation (the "Borrower"), promises to pay to the order of STATE STREET BANK AND TRUST COMPANY (the "Bank"), at the office of the Bank located at 225 Franklin Street, Boston, Massachusetts, or such other place or places as the holder hereof may designate in writing from time to time hereafter, the principal sum of FIVE MILLION DOLLARS (\$5,000,000.00), together with interest as hereinafter provided, in lawful money of the United States of America.

Interest shall be calculated and charged daily on the basis of actual days elapsed over a three hundred sixty (360) day banking year at a variable rate equal to the Bank's Prime Rate in effect from time to time plus one half of one percent (.5%) per annum. As used herein, "Prime Rate" means the rate of interest announced by the Bank in Boston from time to time as its "Prime Rate." Each time the Prime Rate changes, the interest rate hereunder shall change contemporaneously with such change. The Prime Rate is an index only, and not necessarily the lowest rate charged by the Bank on commercial loans. The

Borrower may also elect a Cost of Funds based rate of interest equal to the then Cost of Funds Rate plus three percent (3%) per annum to apply to the outstanding principal hereunder in accordance with, and subject to the terms and conditions of, the Loan Agreement (defined below).

Principal and interest shall be paid as follows: Principal shall be paid in twenty (20) equal quarterly installments of \$250,000.00 commencing June 30, 1997, and continuing on the same date of each September, December and March thereafter; and interest shall be paid monthly in arrears, commencing April 30, 1997 and continuing on the last day of each month thereafter until the earlier of (i) March 31, 2002 or (ii) the date of closing of an initial public offering by Borrower of its securities resulting in net proceeds to the Borrower of not less than \$20,000,000.00, at which time the entire unpaid principal balance plus accrued interest thereon shall be due and payable in full.

This Note is issued under, and is subject to the Amended and Restated Commercial Loan Agreement of even date herewith between the Borrower and the Bank (such agreement, as it may hereafter be amended from time to time, the "Loan Agreement") wherein it is defined as the "Term Note" and the indebtedness evidenced hereby as the "Term Loan." The holder of this Note is entitled to all of the benefits and rights of the Bank under the Loan Agreement. However, neither this reference to the Loan Agreement nor any provision thereof shall impair the absolute and unconditional obligation of the Borrower to pay the principal and interest on this Note as herein provided. Any capitalized term used in this Note which is not

otherwise expressly defined herein shall have the meaning ascribed thereto in the Loan Agreement.

Except as provided in the Loan Agreement, including in particular Sections 2.04.5 and 2.04.7 of the Loan Agreement, the Borrower shall have the right, at any time, to prepay all or any part of the outstanding principal amount hereof without the payment of a penalty or premium, provided that any partial prepayment may, at the Bank's option, be applied first to accrued interest, late charges and other charges due under the Loan Documents, and thereafter to principal installments in inverse order of their due dates.

Upon the occurrence of an Event of Default specified in the Loan Agreement or any other Loan Document, or if any monthly installment under this Note is not paid within ten (10) days of when due, the principal hereof and all interest accrued and accruing hereon may be declared by the holder hereof to be immediately due and payable.

The holder may impose upon the Borrower a delinquency charge of five percent (5%) of the amount of any installment of principal and/or interest not paid on or before the tenth (10th) day after such installment is due. The entire principal balance hereof, together with accrued interest, shall, following the occurrence of an Event of Default and Borrower's failure to cure within the applicable grace period, if any, and in any event after maturity, whether by demand, acceleration or otherwise, bear interest at a fluctuating rate per annum equal to four percent (4%) above the Prime Rate in effect from time to time.

The Borrower agrees to pay on demand all reasonable out-of-pocket costs of collection hereof, including court costs, service fees, and reasonable attorneys' fees, whether or not any foreclosure or other action is instituted by the holder in its discretion.

The word "holder," as used in this Note, shall mean the payee or endorsee of this Note who is in possession of it, or the bearer, if this Note is at the time payable to the bearer.

The indebtedness evidenced by this Note is secured by a security interest in all of Borrower's assets and property interests granted to the Bank pursuant to the Security Agreement (the "Collateral").

No delay or omission on the part of the holder in exercising any right, privilege or remedy shall impair such right, privilege or remedy or be construed as a waiver thereof or of any other right, privilege or remedy. No waiver of any right, privilege or remedy or any amendment to this Note shall be effective unless made in writing and signed by the holder. Under no circumstances shall an effective waiver

of any right, privilege or remedy on any one occasion constitute or be construed as a bar to the exercise of or a waiver of such right, privilege or remedy on any future occasion. The acceptance by the holder hereof of any payment after any default hereunder shall not operate to extend the time of payment of any amount then remaining unpaid hereunder or constitute a waiver of any rights of the holder hereof under this Note.

All rights and remedies of the holder against the maker, whether granted herein or otherwise, shall be cumulative and may be exercised singularly or concurrently, and the holder shall have, in addition to all other rights and remedies, the rights and remedies of a secured party under the Uniform Commercial Codes of Massachusetts and other jurisdictions in which the Collateral is located. The holder shall have no duty as to the collection or protection of the Collateral or of any income thereon, or as to the preservation of any rights pertaining thereto beyond the safe custody thereof. Surrender of this Note, upon payment or otherwise, shall not affect the right of the holder to retain the Collateral as security for the payment and performance of any other liability of the undersigned to the holder.

The maker of this Note waives all exemption rights, valuation and appraisal, presentment, protest and demand, demand for payment, notice of dishonor and protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Note, and assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of Collateral, and/or to the addition or release of any other party or person primarily or secondarily liable.

This Note and the provisions hereof shall be binding upon the undersigned and the undersigned's successors, legal representatives and assigns and shall inure to the benefit of the holder and the holder's successors, legal representatives and assigns.

This note is executed and delivered in substitution and replacement of the Time Promissory Note dated November 1, 1995, made by Borrower to the Bank's order in the principal amount of \$5,000,000.00, as amended, and does not constitute a discharge of the indebtedness evidenced thereby or a novation of the underlying loan transaction.

-3-

IN WITNESS WHEREOF, the Borrower has executed and delivered this Note as of the day and year first above written.

IN THE PRESENCE OF:

PC CONNECTION, INC.

/s/ Curtis W. Little, Jr.  
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By: /s/ Wayne L. Wilson  
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Wayne L. Wilson  
Senior Vice President and  
Chief Operating Officer

Address:  
528 Route 13, Milford NH 03055

-4-

AMENDED AND RESTATED SECURITY AGREEMENT  
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AMENDED AND RESTATED SECURITY AGREEMENT (the "Agreement"), made this 31st day

of March, 1997 by and between PC CONNECTION, INC., a New Hampshire corporation with a principal place of business at 528 Route 13, Milford, New Hampshire 03055 (the "Debtor"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts banking corporation with a principal place of business at 225 Franklin Street, Boston, Massachusetts 02110 (the "Secured Party").

WITNESSETH:  
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WHEREAS, the Bank and the Secured Party are parties to a certain Revolving Credit Agreement dated as of December 10, 1993, as amended by four (4) certain amendments to said Revolving Credit Agreement and Related Loan Documents (as defined in the Revolving Credit Agreement, as amended) dated as of December 15, 1994, November 1, 1995, March 1, 1996 and November 14, 1996, respectively (collectively, the "Original Loan Agreement");

WHEREAS, pursuant to the Original Loan Agreement, Secured Party has extended to Debtor a \$22,500,000 revolving credit and a \$5,000,000.00 time loan, secured by a first security interest in all of its assets and property interests in addition to accounts and inventory, all as set forth in an Amended and Restated Security Agreement dated November 1, 1995, as amended (the "Prior Security Agreement");

WHEREAS, the Debtor has requested that the Secured Party (1) increase the original revolving credit in favor of the Debtor to the maximum principal amount of Thirty Million Dollars (\$30,000,000.00), to be increased to Forty Million Dollars (\$40,000,000.00) after March 1, 1998, ("Revolving Credit") and (2) make a five-year term loan to Borrower in the principal amount of Five Million Dollars (\$5,000,000.00) ("Term Loan") (collectively, the "Loans");

WHEREAS, the Bank has agreed to establish such an increased revolving credit and term loan pursuant to the terms and conditions of an Amended and Restated Commercial Loan Agreement of even date herewith ("Loan Agreement"), a Revolving Credit Note in the maximum principal amount of \$40,000,000.00 of Debtor to Secured Party of even date. herewith ("Revolving Credit Note"); and a Term Promissory Note in the principal amount of \$5,000,000.00 of Debtor to Secured Party of even date herewith ("Term Note") (Revolving Credit Note and Term Note, collectively, the "Notes"); and

WHEREAS, this Security Agreement sets forth the terms and conditions of the Loans and amends and restates in its entirety the Prior Security Agreement.

NOW, THEREFORE, in consideration of the willingness of the Secured Party to make the Loans and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Security Interest. As security for the Secured Obligations described  
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in Section 2 hereof, Debtor hereby grants to the Secured Party, subject to the exceptions and qualifications expressly set forth herein, a first priority security interest in and lien on all of the Debtor's property rights and assets, including without limitation the property described below (hereinafter referred to collectively as the "Collateral"):

(a) All equipment, including machinery, motor vehicles, office equipment, furniture, fixtures, along with all other parts, tools, trade-ins, repairs, accessories, accessions, modifications, and replacements, whether now owned or subsequently acquired, constructed, or attached or added to, or placed in, the foregoing (collectively, the "Equipment");

(b) All inventory, wherever located, including goods, merchandise and other personal property, held for sale or lease or other disposition or furnished or to be furnished under a contract of service, or constituting raw materials, work in process or materials used or consumed in the Debtor's business, or consigned to others or held by others for return to the Debtor, whether now owned or subsequently acquired or manufactured and wherever located, and including documents of title, whether negotiable or non-negotiable, representing any of the foregoing (collectively, the "Inventory");

(c) All accounts receivable, including, without limitation, accounts, contracts, contract rights, chattel paper, instruments, rents, deposits, general intangibles, and any other obligations of any kind whether now existing or hereafter arising out of or in connection with the

sale or lease of goods or the rendering of services, and all rights now or hereafter existing in and to all security agreements, notes, leases, licenses, franchises, supply agreements, and other contracts securing or otherwise relating to any such accounts, contracts, contract rights, chattel paper, documents and instruments (whether negotiable or non-negotiable, and regardless of their being attached to chattel paper), rents, deposits, general intangibles, or obligations (any and all such accounts, contracts, contract rights, chattel paper, documents and instruments, rents, deposits, general intangibles, and obligations being the "Receivables," and any and all such security agreements, notes, leases, licenses, franchises, supply agreements, and other contracts being the "Related Contracts");

-2-

(d) All general intangibles, including, but not limited to, corporate names, trade names, trademarks, trade secrets and other proprietary information, copyrights, books and records, customer lists, blue prints and plans, computer programs, tapes and related electronic data processing software, and all books and records relating to the conduct of the Debtor's business, including without limitation those relating to its accounts;

(e) Any and all additions, accessions, substitutions or replacements to or for any of the foregoing;

(f) Any and all products and proceeds of any or all of the foregoing, including, without limitation, cash, cash equivalents, tax refunds and the proceeds of insurance policies providing coverage against the loss or destruction of or damage to any of the Collateral, or any indemnity, warranty, or guarantee payable by reason of loss or damage to or otherwise with respect to any of the Collateral (whether or not the Secured Party is the loss payee thereof);

(g) All of the Debtor's after-acquired property of the kinds and types described in paragraphs (a)-(f) herein;

(h) All records and data relating to any of the property described above, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of the Debtor's right, title, and interest in and to all computer software required to utilize, create, maintain and process any of such records or data or electronic media; and

also in (1) all checks, money, securities, bank accounts, deposit accounts, and other accounts in the possession of or held by the Secured Party whether in the name of the Debtor or in the name of the Secured Party, and (2) all other property owned by the Debtor or in which the Debtor has an interest that are now or may hereafter be in the possession, custody, or control of the Secured Party. The property described in (1) and (2) above are held in the possession of the Secured Party by agreement of Debtor and Secured Party. All of the said Collateral (which throughout this Agreement includes after-acquired Collateral) is to secure the payment and performance of all of the Secured Obligations.

2. Secured Obligations. The security interest hereby granted shall  
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secure the following (the "Secured Obligations"):

(a) The Debtor's repayment of all outstanding loans or advances under the Revolving Credit, together with interest, late charges, and any other applicable charges, to the Secured Party pursuant to the promissory note evidencing such indebtedness;

-3-

(b) The Debtor's repayment of the outstanding principal balance under the Term Loan, together with interest, late charges, and any other applicable charges, to the Secured Party pursuant to the promissory note evidencing such indebtedness;

(c) The Debtor's payment or performance of all of its obligations under the Loan Agreement and under the other Loan Documents (as defined, described and identified in the Loan Agreement, hereinafter the "Loan Documents"), as the same may be amended, modified, extended, renewed,

replaced or restated;

(d) The payment of all other sums with interest and charges thereon advanced in accordance herewith to protect the validity, security, and priority of this Agreement, the Loan Agreement, or the Loan Documents; and

(e) Any other indebtedness of Debtor to Secured Party of every kind and description, direct or indirect, absolute or contingent, due or to become due, regardless of how they arose or were acquired, now existing or hereafter arising.

3. Warranties and Representations of the Debtor. Debtor hereby makes the

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following representations and warranties which shall survive the execution and delivery of this Agreement and shall be continuing representations and warranties as long as any Secured Obligation remains outstanding:

(a) All representations and warranties made in the Loan Agreement and the Loan Documents relating to the Debtor and the Collateral are true, accurate and complete in all material respects;

(b) The Debtor's principal place of business is located at 528 Route 13, Milford, New Hampshire; the Debtor's executive offices and the office where its books and records are kept and are to be kept concerning the Receivables, Related Contracts and other Collateral are at the aforesaid address; and the Debtor has no other places of business except those set forth on Schedule I hereto;  
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(c) The Debtor conducts business only under and through the corporate, business and trade names "PC Connection" and "MAC Connection," and such other trade names as it deems advisable upon written notice to the Bank;

(d) No material authorization, approval or other action by, and no notice to or filing with, any governmental authority or other person is required either (i) for the grant by the Debtor of the security interests granted hereby or

for the execution, delivery or performance of this Agreement by the Debtor, or (ii) for the perfection of or the exercise by the Secured Party of its respective rights and remedies hereunder, except the filing of financing statements;

(e) The Debtor has good and marketable title to all of the Collateral pledged by it hereunder, free and clear of any liens, security interests, encumbrances or interests or claims of any other person or entity, except security interests held by International Business Machines Corporation and IBM Credit Corporation (collectively "IBM") in specific IBM and Lexmark International, Inc. inventory and equipment and by Deutsche  
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Financial Services Corporation and other permitted encumbrances listed on Schedule II and the Permitted Encumbrances as defined in the Loan Agreement  
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(all of the foregoing, "Permitted Encumbrances");

(f) Upon the filing of UCC-1 financing statements being delivered at or prior to the execution hereof, and the advance of value, the Secured Party will have a valid, perfected first security interest in all of the Collateral in which Debtor now or in the future has rights, except with respect to the Permitted Encumbrances, and except for Collateral which requires possession or an alternate means of perfection;

(g) The Debtor has not performed any acts which might prevent the Secured Party from enforcing any of the material terms and conditions of this Agreement or which would limit any of them in any such enforcement;

(h) Schedule III attached hereto sets forth the description and  
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location of all Collateral not located at the Debtor's principal place of business, together with a list of the record owners of the real estate on which such Collateral is located as of the date of this Agreement; and

(i) No effective financing statements or other similar instrument in effect covering all or any part of the Collateral is on file in any recording office, other than financing statements filed by IBM and Deutsche Financial Services Corporation ("DFS"), and "notice" filings by certain equipment lessors listed on Schedule II, except as may have been filed in -----  
favor of Secured Party relating to this Agreement.

4. Affirmative Covenants of the Debtor.  
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(a) The Debtor shall promptly notify and provide the Secured Party with a complete description of the opening of any new places of business, the closing of any existing places of business, the conduct of business under any names or through any entities other than those set forth herein, the relocation

-5-

of any of the Collateral to any new place of business or any other act which would affect the financing statements filed by the Secured Party;

(b) The Debtor shall continuously take all steps that are necessary or prudent to protect the security interests of the Secured Party in the Collateral;

(c) The Debtor shall defend the Collateral against the claims and demands of all persons;

(d) The Debtor shall deliver and pledge to the Secured Party, endorsed or accompanied by instruments of assignment or transfer satisfactory to the Secured Party, any instruments, documents, and chattel paper which the Secured Party may reasonably specify;

(e) The Debtor shall comply, in all material respects, with all governmental regulations applicable to the Collateral or any part thereof or to the operation of the Debtor's business, noncompliance with which would have a material and adverse effect on the business and operations of the Borrower; provided, however, that the Debtor may contest any governmental regulation in any reasonable manner which shall not in the reasonable opinion of the Secured Party adversely affect the Secured Party's rights or the first priority of its security interest in the Collateral;

(f) The Debtor shall pay promptly when due, all taxes, assessments and governmental charges or levies imposed upon the Collateral or in respect of its income or profits therefrom, as well as all claims of any kind, except that no such charge need be paid if (i) the validity thereof is being contested in good faith by appropriate proceedings, (ii) such proceedings do not involve any danger of the sale, forfeiture or loss of any of the Collateral or any interest therein; and (iii) such charge is adequately reserved against in accordance with the generally accepted accounting principles;

(g) The Debtor shall cause the Equipment to be maintained and preserved in good working order and condition, reasonable wear and tear and fully insured casualty excepted, and shall make all repairs, replacements, additions, and other improvements necessary to maintain the Equipment in such good condition;

(h) The Debtor shall maintain Inventory sufficient to meet the needs of its business;

(i) The Debtor shall preserve all beneficial Related Contracts;

-6-

(j) The Debtor shall take all commercially reasonable steps necessary to collect the Receivables;

(k) The Debtor shall furnish the Secured Party with a detailed report (in such form and at such intervals as the Secured Party may

prescribe but no more frequently than monthly with regard to Borrowing Base (as defined in the Loan Agreement) and monthly financial data) of all allowances, adjustments, returns and repossessions, and all Collateral detained from or refused entry into the United States by the appropriate governmental authorities; and the Secured Party may at any time without prior notice to or consent of the Debtor:

(i) require the Debtor to pay the Secured Party an amount equal to said allowances and adjustments, or, in the case of returned, repossessed, detained or refused inventory, equal to the amount of the Collateral represented thereby; or

(ii) charge such amounts to any deposit account of the Debtor with the Secured Party; or

(iii) accept the return of any Inventory;

all without discharging or in any affecting the Borrower's liability hereunder or on the Secured Obligations.

(l) The Debtor shall assure that (i) no Receivable is or shall be subject to any defense, offset, counterclaim, discount, or allowance, (ii) no agreement under which any deduction, discount, credit or allowance of any kind may be granted or allowed shall have been or shall thereafter be made by Debtor with any account party without the consent of Secured Party, except as expressly permitted under Section 8(b) below, (iii) all statements made and all unpaid balances appearing in the invoices, documents, agreements relating to each Receivable are and shall be true, genuine, and correct in all respects, and (iv) no Receivable shall be converted to a note or other instrument unless the same shall be delivered to the possession of the Secured Party within ten (10) days of the date of execution of such note or instrument;

(m) Debtor shall keep accurate and complete records listing and describing the Collateral, and when requested by Secured Party, Debtor shall give Secured Party a certificate listing and describing the Collateral and setting forth the total value of the Inventory, the total value of the Equipment, the amount of the Receivables designating how many days the Receivables are from the date of invoice, the face value of any instruments, and any other information Secured Party may reasonably request. Secured Party shall have

-7-

the right at any time to inspect the Collateral and to audit and make copies of or extracts from any records or other writings which relate to the Collateral or the general financial conditions of Debtor;

(n) The Debtor shall advise the Secured Party promptly, in reasonable detail, of (i) any lien, security interest, encumbrance, or claim made or asserted against any of the Collateral other than the security interests of the Secured Party, IBM and DFS and other Permitted Encumbrances, (ii) any material change, substantial loss or depreciation in the composition of the Collateral, and (iii) the occurrence of any other material adverse effect known to Debtor on the aggregate value, enforceability or collectibility of the Collateral or on the security interests created hereunder;

(o) The Debtor shall give, execute, deliver and file or record in the proper governmental offices, any instrument, paper or document, including, but not limited to, one or more financing statements under the Uniform Commercial Code, reasonably satisfactory to the Secured Party, or take any action which the Secured Party may deem necessary or desirable in order to create, preserve, perfect, extend, continue, modify, terminate or otherwise effect any security interest granted pursuant hereto, or to enable the Secured Party to exercise or enforce any of its rights hereunder and in this regard Debtor authorizes the Secured Party to file any financing or continuation statement without the Debtor's signature to the extent permitted by applicable law; and

(p) The Debtor shall keep, and stamp or otherwise mark, any of its documents, instruments and chattel paper and its books and records relating to any of the Collateral in such manner as the Secured Party may reasonably require.



5. Negative Covenants of the Debtor. Except as otherwise provided in the

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Loan Agreement or in this Agreement, without the prior written consent of the Secured Party, the Debtor shall not:

(a) Transfer, sell or assign any of the Collateral other than (i) sales of Inventory in the ordinary course of Debtor's business for cash or on open account and on terms of payment ordinarily extended to its customers or (ii) dispositions of Equipment that has become worn out or obsolete or that has been replaced by other Equipment;

(b) Allow or permit any other security interest, lien, levy or attachment, other than Permitted Encumbrances, to attach to any of the Collateral;

-8-

(c) File, authorize, or permit to be filed in any jurisdiction any financing statement relating to any of the Collateral unless the Secured Party is named as sole secured party;

(d) Permit any of the Collateral to be levied upon under any legal process;

(e) Permit anything to be done that may materially impair the value of any of the Collateral or the security therein intended to be afforded hereby; or

(f) Use the Collateral in violation of any law or in any manner inconsistent with any policy of insurance thereon.

6. Fixtures. It is the intention of the parties hereto that none of the

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Collateral shall become fixtures. Without limiting the generality of the foregoing, the Debtor will, if requested by the Secured Party, use its best efforts to obtain waivers of lien, in form satisfactory to the Secured Party, from each mortgagee or lessor of real property (other than the Secured Party) on which any of the Collateral is or is to be located.

7. Insurance. Debtor shall, at its own expense, maintain insurance

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covering the Collateral against such risks, with such insurers, in such form, and in such amounts as shall from time to time be required by Secured Party, but in any event, in such amounts and with such coverage as is customary in Debtor's type of business, which insurance may provide for reasonable deductibility from coverage thereof. All insurance policies shall be written so as to be payable in the event of loss to Secured Party as an additional insured and loss payee and shall provide for ten (10) days' written notice to Secured Party of cancellation or modification. At the request of Secured Party, all insurance policies shall be furnished to and held by Secured Party. Debtor hereby assigns to Secured Party return premiums, dividends and other amounts which may be or become due upon cancellation of any such policies for any reason whatsoever and directs the insurers to pay Secured Party any sums so due, provided Debtor shall be entitled to receive such sum until such time as an Event of Default has occurred. Secured Party is hereby appointed as attorney irrevocable to collect return premiums, dividends and other amounts due on any insurance policy and the proceeds of such insurance, to settle any claims with the insurers in the event of loss or damage, to endorse settlement drafts and, upon the occurrence of an Event of Default (as defined hereinbelow), to cancel, assign, or surrender any insurance policies. If, while any Secured Obligations are outstanding, any return premiums, dividends, other amounts or proceeds are paid to Secured Party under such policies, Secured Party may, at Secured Party's option, take either or both of the following actions:

-9-

(i) apply such return premiums, dividends, other amounts and proceeds in whole or in part to the payment or satisfaction of any of the Secured Obligations in whatever order Secured Party determines; or (ii) pay over such return premiums, dividends, other amounts and proceeds in whole or in part to Debtor for the purpose of repairing or replacing the Collateral destroyed or damaged, any return premiums, dividends, other amounts and proceeds so paid over by Secured

Party to be secured by this Agreement.

8. Receivables.  
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(a) Debtor agrees that Secured Party may communicate with account debtors in order to verify the existence, amount, and terms of any Receivables. Secured Party may notify account debtors of the security interests established herein and require that payments on Receivables be made directly to Secured Party, and upon the request of Secured Party, Debtor shall notify account debtors and indicate on all billings that payments and returns are to be made directly to Secured Party. In furtherance of the foregoing, Debtor hereby appoints Secured Party attorney irrevocable with full power to collect, compromise, endorse, sell, or otherwise deal with the Receivables or proceeds thereof and to perform the terms of any contract in order to create Receivables in Secured Party's name or in the name of Debtor, provided the Secured Party shall only exercise the power granted in this sentence upon and following the occurrence of an Event of Default. This Agreement may be, but need not be, supplemented by separate assignments of Receivables and contract rights and, if such assignments are given, the rights and security interests given thereby shall be in addition to and not in limitation of the rights and security interests granted by this Agreement.

(b) The Debtor may grant such allowances or other adjustments to account debtors (exclusive of extending the time for payment of items in the aggregate amount of \$50,000.00 or more which shall not be done without first obtaining the Secured Party's written consent in each instance which consent may not be unreasonably withheld) as the Debtor may reasonably deem to accord with sound business practice.

9. Events of Default. The following events shall be deemed "Events of  
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Default" hereunder:

(a) An Event of Default under the Loan Agreement or any of the Loan Documents;

(b) Any representation or warranty or statement of fact made to Secured Party at any time by Debtor proves to have been false or misleading in any material respect when made or furnished;

-10-

(c) Debtor fails to observe or perform any covenant, warranty, or agreement required to be observed or performed by it under this Agreement;

(d) Uninsured loss, theft, damage, or destruction of any substantial portion of any of the Collateral;

(e) Any levy, seizure, or attachment of any of the Debtor's property in the amount of \$200,000 or more and any such levy, seizure or attachment is not removed, dissolved or bonded within sixty (60) days;

(f) Dissolution or termination of existence of the Debtor; or

(g) The calling or sufferance by the Debtor of a meeting of the creditors of the Debtor or the occurrence of a meeting by the Debtor or a representative thereof with a formal or informal committee of creditors of the Borrower.

10. Rights and Remedies of Secured Party on Default. Upon the occurrence  
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of any Event of Default, Secured Party shall have, by way of example and not of limitation, the following rights and remedies:

(a) Secured Party may declare the Secured Obligations, or any of them, to be immediately due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived;

(b) In addition to all other rights and remedies contained in this Agreement, the Loan Agreement, and in the Loan Documents, Secured Party may exercise the rights and remedies accorded Secured Party by the Uniform Commercial Code or by any other applicable law, all of which rights and

remedies shall be cumulative and non-exclusive to the extent permitted by law;

(c) Secured Party shall have the right to enter and/or remain upon the Premises of Debtor, or any other place or places where any of the Collateral is located and kept, without any obligation to pay rent to Debtor or others, and remove Collateral therefrom to the premises of the Secured Party or any agent of Secured Party for such time as Secured Party may desire in order to maintain, collect, sell and/or prepare the Collateral for sale, liquidation or collection;

(d) Secured Party may require the Debtor at Debtor's cost to assemble the Collateral and make it available to Secured Party at a place designated by Secured Party;

-11-

(e) Secured Party may take possession of and use and operate the Collateral in the manner and for the purposes as set forth in Section 11 hereinbelow;

(f) Secured Party may sell, lease, or otherwise dispose of the Collateral as set forth in Section 12 hereinbelow;

(g) Secured Party shall have the right to set-off, without notice to the Debtor, any and all deposits or other sums at any time or times credited or due from Secured Party to Debtor, whether in a special account or other account or represented by a certificate of deposit (whether or not matured); which deposit and other sums shall at all times constitute additional security for the Secured Obligations;

(h) Secured Party may perform any warranty, covenant or agreement which Debtor has failed to perform under this Agreement; and

(i) Secured Party may take any other action which Secured Party deems necessary or desirable to protect the Collateral or the security interests granted herein.

11. Rights of Secured Party to Use and Operate Collateral. Upon the

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occurrence of any Event of Default, but subject to the provisions of the Uniform Commercial Code or other applicable law, the Secured Party shall have the right and power to take possession of all or any part of the Collateral, and to exclude the Debtor and all persons claiming under the Debtor wholly or partly therefrom, and thereafter to hold, store, and/or use, operate, manage and control the same. Upon any such taking of possession, the Secured Party may, from time to time, at the expense of the Debtor, make all such repairs, replacements, alterations, additions and improvements to and of the Collateral as the Secured Party may reasonably deem proper. In any such case, subject as aforesaid, the Secured Party shall have the right to manage and control the Collateral and to carry on the business and to exercise all rights and powers of the Debtor in respect thereto as the Secured Party shall deem best, including the right to enter into any and all such agreements with respect to the leasing and/or operation of the Collateral or any part thereof as the Secured Party may see fit; and the Secured Party shall be entitled to collect and receive all rents, issues, profits, fees, revenues and other income of the same and every part thereof. Such rents, issues, profits, fees, revenues and other income shall be applied to pay the expenses of holding and operating the Collateral and of conducting the business thereof, and of all maintenance, repairs, replacements, alterations, additions and repairs, replacements, alterations, additions and improvements, and to make all payments which the Secured Party may be required or may elect to make, if any, for taxes, assessments, insurance and other charges upon the Collateral or any part thereof, and all other payments which the Secured Party may be required or

-12-

authorized to make under any provision of this Agreement (including reasonable legal costs and attorneys' fees). The remainder of such rents, issues, profits, fees, revenues and other income shall be applied to the payment of the Secured Obligations in such order of priority as the Secured Party may determine in its sole discretion and any surplus shall be returned to the Debtor. Without limiting the generality of the foregoing, the Secured Party shall have the right

to apply for and have a receiver appointed by a court of competent jurisdiction in any action taken by the Secured Party to enforce their rights and remedies hereunder in order to manage, protect and preserve the Collateral and continue the operation of the business of the Debtor and to collect all revenues and profits thereof and apply the same to the payment of all expenses and other charges of such receivership including the compensation of the receiver and to the payment of the Secured Obligations as aforesaid until a sale or other disposition of such Collateral shall be finally made and consummated.

12. Rights of Secured Party to Sell Collateral. Upon five (5) days, prior  
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written notice by registered or certified mail by Secured Party to Debtor at the address of the Debtor set forth above (or at such other address or addresses as the Debtor shall specify in writing by like notice to the Secured Party) of the time and place of any intended disposition of Collateral, the Secured Party shall have the right and power to sell, assign, lease, or otherwise dispose of the Collateral from any business premises of the Debtor, either at public auction or private sale, by liquidation sale or other disposition, or as if the sale was being made in the ordinary course of Debtor's business, with or without notice to the public that the said sale or disposition is for the benefit of the Secured Party; provided, however, that if the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, then Secured Party shall have the right and power to dispose of the Collateral without prior notice to Debtor and Debtor expressly waives any rights to notice under such circumstances. The notices described above shall be deemed to meet any requirement hereunder or under any applicable law (including the Uniform Commercial Code) that reasonable notification be given of the time and place of such sale or other disposition. After deducting all costs and expenses of collection, storage, custody, sale or other disposition and delivery (including reasonable legal costs and attorneys' fees) and all other charges against the Collateral, the residue of the proceeds of any such sale or disposition shall be applied to the payment of the Secured Obligations in such order of priority as the Secured Party may determine in its sole discretion and any surplus shall be returned to the Debtor. In the event the proceeds of any sale, lease or other disposition of the Collateral hereunder are insufficient to pay all of the Secured Obligations in full, the Debtor will be liable for the deficiency, together with interest thereon at the maximum rate provided in the Loan Agreement and the cost and expenses of collection of such deficiency, including, without limitation, reasonable fees of attorneys, experts, and agents, expenses and disbursements.

-13-

13. Attorney-in-Fact. The Secured Party is hereby appointed the attorney-  
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in-fact, with full power of substitution, of the Debtor for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instruments (including, without limitation, financing or continuation statements, conveyances, assignments, and transfers) which the Secured Party may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is coupled with an interest and is irrevocable, (provided that Secured Party shall not exercise the power of attorney granted herein except upon and following the occurrence of an Event of Default). The Debtor shall indemnify and hold harmless the Secured Party from and against any liability or damage which it may incur in the exercise and performance, in good faith, of the Secured Party's powers and duties as such attorney-in-fact.

14. Waiver, etc. The Debtor waives notice of nonpayment, demand,  
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presentment, protest or notice of protest of the Collateral, and all other notices, consents to any renewals or extensions of time of payment thereof, and generally waives any and all suretyship defenses and defenses in the nature thereof. No delay or omission of the Secured Party in exercising or enforcing any of its rights, powers, privileges, remedies, immunities or discretions (all of which are hereinafter collectively referred to as "the Secured Party's rights and remedies") hereunder shall constitute a waiver thereof; and no waiver by the Secured Party of any default of the Debtor hereunder shall operate as a waiver of any other default hereunder. No term or provision hereof shall be waived, altered or modified except with the prior written consent of the Secured Party, which consent makes explicit reference to this Agreement. Except as provided in the preceding sentence, no other agreement or transaction, of whatsoever nature, entered into between the Secured Party and the Debtor at any time (whether before, during or after the effective date or term of this Agreement), shall be

construed in any particular way as a waiver, modification or limitation of any of the Secured Party's rights and remedies under this Agreement (nor shall anything in this Agreement be construed as a waiver, modification or limitation of any of the Secured Party's rights and remedies under any such other agreement or transaction with the Debtor) but all the Secured Party's rights and remedies against the Debtor not only under the provisions of this Agreement but also under any such other agreement or transaction shall be cumulative and not alternative or exclusive, and may be exercised by the Secured Party at such time or times and in such order of preference as the Secured Party in its sole discretion may determine. In the event of an inconsistency between the terms and conditions of this Agreement and the Loan Agreement, the terms and conditions of the Loan Agreement shall prevail.

15. Invalid Provisions. If any provision of this Agreement or portion of  
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such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Agreement (or the

-14-

remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby.

16. Successors and Assigns. This Agreement shall be binding upon and  
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inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, and shall remain in full force and effect (and the Secured Party shall be entitled to rely thereon, notwithstanding payment of all Secured Obligations of the Debtor to the Secured Party at any time or times) until terminated as to future transactions by written notice from either party to the other party of the termination hereof; provided that any such termination shall not release or affect any Collateral in which the Secured Party already has a security interest or any Secured Obligations incurred or rights accrued hereunder prior to the effective date of such termination. Notwithstanding any such termination, the Secured Party shall have a security interest in all Collateral to secure the payment and performance of Secured Obligations arising after such termination as a result of commitments or undertakings made or entered into by the Secured Party prior to such termination. The Secured Party may transfer and assign this Agreement as provided in the Loan Agreement and deliver the Collateral to the assignee, who shall thereupon have all of the rights of the Secured Party; and the Secured Party shall then be relieved and discharged of any future responsibility or liability with respect to this Agreement and the Collateral.

17. Governing Law. This Agreement is intended to take effect as a sealed  
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instrument and has been executed or completed and is to be performed in Massachusetts, and it and all transactions thereunder or pursuant thereto shall be governed as to interpretation, validity, effect, rights, duties and remedies of the parties thereunder and in all other respects by the domestic laws of Massachusetts, except that with respect to the creation, perfection and enforcement of security interests in Collateral located outside Massachusetts, the internal laws of the jurisdiction in which such Collateral is located shall apply.

18. Notices. Any notices under or pursuant to this Agreement shall be  
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given and be deemed effective as provided in Section 9.02 of the Loan Agreement.

19. Uniform Commercial Code. All references herein to the Uniform  
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Commercial Code shall mean such code as adopted by the Commonwealth of Massachusetts, except that with respect to the creation, perfection and enforcement of security interests in Collateral located in other jurisdictions, the Uniform Commercial Code as adopted in such other jurisdictions shall apply. All terms used herein, unless expressly defined herein, shall have the meanings given in the Uniform Commercial Code as adopted by the Commonwealth of Massachusetts.

20. No Duty Imposed on Secured Party. The powers conferred on the Secured  
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Party hereunder are solely to protect its interest in the Collateral and shall

not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for monies actually received by it hereunder, and except as may be otherwise stated herein, the Secured Party shall not have any duty as to any Collateral or as to the taking of any necessary steps to preserve any right of it or of the Debtor against other parties pertaining to any Collateral.

21. Existing Financing Statements. This Security Agreement amends and ----- restates the Prior Security Agreement in its entirety and does not terminate the security interests granted thereunder. Furthermore, the security interests granted to the Secured Party by the Debtor pursuant to the Prior Security Agreement and perfected by previously filed UCC-1 financing statements continue in full force and effect notwithstanding the filing of additional UCC- 1 financing statements in connection with this Security Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

WITNESS: PC CONNECTION, INC.

/s/ Curtis W. Little, Jr. By: /s/ Wayne L. Wilson -----  
----- Wayne L. Wilson,  
Sr. Vice President

STATE STREET BANK AND TRUST COMPANY

/s/ Curtis W. Little, Jr. By: /s/ Thomas J. Pyles -----  
----- Vice President

Schedules Certificates, Collateral Assignments and Exhibits may be obtained from the Registrant upon written request.

AMENDMENT  
TO  
AMENDED AND RESTATED  
COMMERCIAL LOAN AGREEMENT  
AND RELATED LOAN DOCUMENTS

THIS AMENDMENT to Amended and Restated Commercial Loan Agreement and Related Loan Documents is made as of the 19th day of November, 1997, by and between STATE STREET BANK AND TRUST COMPANY, a Massachusetts banking corporation having its principal office at 225 Franklin Street, Boston, Massachusetts (the "Bank"), and PC CONNECTION, INC., a New Hampshire corporation having its principal place of business at 528 Route 13, Milford, New Hampshire (the "Borrower").

WITNESSETH:  
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WHEREAS, the Bank and the Borrower are parties to a certain Amended and Restated Commercial Loan Agreement dated as of March 31, 1997 (the "Loan Agreement"), and certain Loan Documents (as defined in the Loan Agreement);

WHEREAS, pursuant to the Loan Agreement, the Bank has extended to the Borrower (1) a revolving line of credit in the maximum principal amount of

\$30,000,000 (to be increased to \$40,000,000 after March 1, 1998) (the "Revolving Credit") and (2) a term loan in the principal amount of \$5,000,000 (the "Term Loan"); and

WHEREAS, the Borrower has requested, and the Bank has agreed to, (1) increase the maximum principal amount available under the Revolving Credit to \$45,000,000, (2) reduce the interest rate on Libor Rate Loans under the Revolving Credit and both the Prime Rate Loan and COF Loans under the Term Loan by one-half percent (1/2%) per annum, (3) increase the cap on Qualified Inventory includable within Borrower's Borrowing Base to \$25,000,000, and (4) revise the definition of "Net Income" for purposes of the Borrower's financial covenants contained in the Loan Agreement, all of the foregoing changes to be upon and subject to the terms and conditions of the Loan Agreement and the Loan Documents, as the same are amended hereby;

NOW, THEREFORE, in consideration of the premises contained herein, the Borrower and the Bank hereby agree as follows (all capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Loan Agreement):

I. AMENDMENT OF LOAN AGREEMENT.  
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A. Increase of Revolving Line of Credit. Section 2.01 of the Loan  
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Agreement shall be and hereby is amended by increasing the maximum amount of

the Revolving Credit as set forth therein from Thirty Million (\$30,000,000.00) Dollars (increasing to Forty Million (\$40,000,000) Dollars after March 1, 1998) to Forty-Five Million (\$45,000,000.00) Dollars, effective as of the date hereof subject to and limited by the provisions regarding availability under such Section 2.01, as well as Sections 2.08, 2.09, 2.11 and 2.12, and further subject to the other provisions of the Loan Agreement and the terms and conditions of the Revolving Credit Note. The Borrower shall execute and deliver to Bank a replacement Revolving Credit Note in the form attached hereto as Exhibit A  
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contemporaneously herewith to reflect the increase of the maximum principal amount of the Revolving Credit and the reduction in the interest rate on Libor Rate Loans as provided below, and hereafter all references to "Revolving Credit Note" or "Note" in the Loan Agreement or any other Loan Documents shall mean such promissory note. All references in the Loan Agreement to the maximum principal amount of the Revolving Credit or the principal amount of the Note or Revolving Credit Note are amended to read \$45,000,000.00.

B. Interest Rate Reductions.  
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(1) The first sentence of Section 2.04.1 of the Loan Agreement is amended to read as follows:

On the outstanding and unpaid principal amount of the Revolving Credit, Borrower shall pay interest to the Bank at an interest rate per annum equal to (i) Bank's Prime Rate in effect from time to time or (ii) the Adjusted Libor Rate plus two percent (2.0%) per annum, as provided below.

(2) The first sentence of Section 2.04.2 of the Loan Agreement is amended to read as follows:

On the outstanding and unpaid principal amount of the Term Loan, Borrower shall pay interest to the Bank at an interest rate per annum equal to (i) Bank's Prime Rate in effect from time to time (the "Term Variable Rate") or (ii) the Bank's Cost of Funds Rate, as defined below, plus two and one-half percent (2.5%) per annum.

The Borrower shall execute and deliver to the Bank contemporaneously herewith a Note Modification Agreement in the form attached hereto as Exhibit B which shall  
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implement the foregoing interest rate reductions for the Term Loan.

C. Increase in Cap on Qualified Inventory includable in Borrowing Base.  
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The definition of "Borrowing Base" contained in Section 1.01 of the Loan Agreement is amended to read in its entirety as follows:

2

"BORROWING BASE" means as of any time the percentages set by the Bank

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of the Borrower's Qualified Certified Accounts and Qualified Inventory as of such time, all as determined by the Bank in its sole discretion, which determination shall be final and binding upon the Borrower, against which and only against which the Bank will make loans pursuant to Section 2.01 of this Agreement. Until changed by the Bank, the Borrowing Base is the lesser of (i) Forty-Five Million Dollars (\$45,000,000.00), or (ii) the sum

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of (x) Seventy Five Percent (75%) of the Qualified Certified Accounts and (y) Fifty Percent (50%) of Qualified Inventory, subject to the following qualifications: In no event shall the total amount advanced hereunder against Qualified Inventory exceed Twenty-Five Million Dollars (\$25,000,000.00); and in no event shall the Borrowing Base exceed the sum of Forty-Five Million Dollars (\$45,000,000.00). The Bank reserves the right in its sole discretion and upon reasonable prior notice (i) to modify the percentage of Qualified Inventory included in the Borrowing Base or the total amount which may be advanced against Qualified Inventory or (ii) to eliminate Qualified Inventory entirely from the Borrowing Base.

D. Change in Definition of "Net Income." The definition of "Net Income"

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contained in Section 7.03 of the Loan Agreement is amended to read in its entirety as follows:

"Net Income" means total income from all sources for the fiscal quarter or year, less cost of goods sold, taxes, depreciation and

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amortization expense, and such other items treated as expenses under GAAP for such period, but excluding expense charges respecting compensation recognized for stock options granted under employee stock option plans recorded pursuant to APB Opinion No. 25, and less the amount distributed to

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shareholders during such period to cover income taxes for undistributed profits (if Borrower has elected S Corporation status), all as determined from the Financial Statements in accordance with GAAP.

II. AMENDMENT OF OTHER LOAN DOCUMENTS.

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Each of the other Loan Documents, whether or not specifically referenced herein, shall be and hereby is amended to reflect the terms and conditions of this Amendment and to include within the scope of such Loan Documents and the description of Loans and Notes therein, and the obligations secured thereby, the Revolving Credit as hereby increased. Without limiting the generality of the foregoing, all references in the Amended and Restated Security Agreement included among the Loan Documents to the Revolving Credit shall mean the Revolving Credit as increased this date to Forty-Five Million Dollars (\$45,000,000).

3

III. REAFFIRMATION OF REPRESENTATIONS AND WARRANTIES.

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Except as set forth in Schedule I attached hereto, or otherwise consented to or acknowledged by the Bank in writing, Borrower hereby confirms, reasserts, and restates all of the representations and warranties under the Loan Agreement and the Loan Documents, as amended hereby, as of the date hereof, including without limitation, the representations and warranties set forth in Article IV of the Loan Agreement.

IV. REAFFIRMATION OF AFFIRMATIVE COVENANTS.

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Except as set forth in Schedule II attached hereto, or otherwise consented to or acknowledged by the Bank in writing, Borrower hereby confirms, reasserts, and restates its affirmative covenants as set forth in the Loan Agreement and



the Loan Documents, as amended hereby, as of the date hereof, including without limitation the Affirmative Covenants set forth in Article V of the Loan Agreement.

V. REAFFIRMATION OF NEGATIVE COVENANTS.  
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Except as set forth in Schedule III attached hereto, or otherwise consented to or acknowledged by the Bank in writing, Borrower hereby confirms, reasserts, and restates its negative covenants as set forth in the Loan Agreement and the Loan Documents, as amended hereby, as of the date hereof, including without limitation the Negative Covenants set forth in Article VI of the Loan Agreement.

VI. FURTHER REPRESENTATION AND WARRANTIES.  
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The Borrower represents and warrants to the Bank as follows:

A. The execution, delivery and performance of this Amendment and the documents relating hereto (the "Amendment Documents") are within the power of the Borrower and are not in contravention of law, the Borrower's Articles of Incorporation, By-laws or the terms of any other documents, agreements or undertaking to which the Borrower is a party or by which the Borrower is bound. No approval of any person, corporation, governmental body or other entity not provided herewith is required as a prerequisite to the execution, delivery and performance by Borrower of the Amendment Documents or any of the documents submitted to the Bank in connection with the Amendment Documents to ensure the validity or enforceability thereof.

B. All necessary corporate action has been taken by the Borrower to authorize the execution, delivery and performance of the Amendment Documents which, when executed on behalf of the Borrower, will constitute the legally binding obligations of the Borrower, enforceable in accordance with their respective terms.

4

VII. NO FURTHER EFFECT.  
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Except as specifically amended hereby, the terms and conditions of the Loan Agreement and each of the Loan Documents as set forth therein shall remain in full force and effect.

IN WITNESS WHEREOF, the Bank and the Borrower have executed and delivered this Amendment all as of the date and year first above written.

WITNESS:

BANK:

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STATE STREET BANK AND TRUST COMPANY

/s/

By: /s/ Thomas J. Pyles

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Thomas J. Pyles  
Vice President

WITNESS:

BORROWER:

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PC CONNECTION, INC.

/s/ Paul Drahnak

By: /s/ Wayne L. Wilson

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Wayne L. Wilson  
Senior Vice President and  
Chief Operating Officer

5

(ALLONGE)

THIS NOTE MODIFICATION AGREEMENT is dated as of November 19th, 1997 between PC CONNECTION, INC., a New Hampshire corporation (the "Borrower") and STATE STREET BANK AND TRUST COMPANY, a Massachusetts banking corporation (the "Bank").

PREAMBLE  
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The Borrower executed and delivered to the Bank its Term Note dated March 31, 1997, in the original principal amount of Five Million and 00/100 DOLLARS (\$5,000,000.00) (the "Note"). The Borrower has requested a reduction in (1) the Term Variable Rate from the Bank's Prime Rate plus one-half of one percent (0.5%) per annum to the Bank's Prime Rate per annum, and (2) the rate based on the Bank's Cost of Funds Rate from the Bank's Cost of Funds Rate plus three percent (3%) per annum to the Bank's Cost of Funds Rate plus two and one-half percent (2.5%) per annum. The Bank has agreed to such request, upon and subject to the terms and conditions set forth herein.

Accordingly, in consideration for the premises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Bank agree as follows (all terms used herein shall have the meanings given in the Note unless expressly defined herein):

1. Interest Rate. The second paragraph of the Note is amended to read in  
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its entirety as follows:

Interest shall be calculated and charged daily on the basis of actual days elapsed over a three hundred sixty (360) day banking year at a variable rate equal to the Bank's Prime Rate in effect from time to time. As used herein, "Prime Rate" means the rate of interest announced by the Bank in Boston from time to time as its "Prime Rate." Each time the Prime Rate changes, the interest rate hereunder shall change contemporaneously with such change. The Prime Rate is an index only, and not necessarily the lowest rate charged by the Bank on commercial loans. The Borrower may also elect a Cost of Funds based rate of interest equal to the then Cost of Funds Rate plus two and one-half percent (2.5%) per annum to apply to the outstanding principal hereunder in accordance with, and subject to the terms and conditions of, the Loan Agreement (defined below).

2. No other Change. Except as expressly and specifically modified  
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herein, the terms of the Note remain unchanged and are in full force and effect. In no event

shall this Note Modification Agreement constitute a novation or discharge of the Note or the indebtedness evidenced thereby.

3. References. All references to the "Note" or the "Term Note" in the  
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Loan Agreement or in any other agreements, mortgages, or instruments securing or otherwise pertaining to the indebtedness evidenced by the Note or otherwise referring to the Note shall be deemed to refer to the Note as hereby modified.

4. Collateral. The Note, as hereby modified, continues to be secured by  
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the Collateral (as defined in the Loan Agreement) and such other collateral for the Loan as has been granted to the Bank by the Borrower, including without limitation the security interests granted by Borrower to the Bank pursuant to the Amended and Restated Security Agreement dated as of March 31, 1997 between the Borrower and the Bank.

5. Allonge. An original counterpart of this Agreement has been attached  
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to the Note and shall constitute an allonge to the Note such that the Note and this Agreement shall constitute a single instrument.

IN WITNESS WHEREOF, the Bank and the Borrower have executed and delivered this Note Modification Agreement as of the day and year first above written.

WITNESS:

BORROWER:

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PC CONNECTION, INC.

/s/ Paul Drahnak

By: /s/ Wayne L. Wilson

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Wayne L. Wilson  
Senior Vice President and  
Chief Operating Officer

Address:  
528 Route 13, Milford, NH 03055

BANK:

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STATE STREET BANK AND TRUST COMPANY

/s/

By: /s/ Thomas J. Pyles

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Thomas J. Pyles  
Vice President

2

PC CONNECTION, INC.

DIRECTORS ACTION BY CONSENT

NOW COME David Hall, Patricia Gallup, David Beffa-Negrini, Martin Murrer, and Peter Baxter, being all of the Directors of PC Connection, Inc. and in accordance with R.S.A. 293-A:8.21 hereby consent to the following resolutions:

Resolved,

That the corporation amend its Revolving Line of Credit with State Street Bank and Trust Co. by increasing the limit on the revolving credit to \$45 million; and

That Wayne Wilson, Senior Vice President, CFO and COO shall have authority to execute on behalf of the corporation any notes and documents necessary to amend the Credit and close the transaction with the bank.

Dated: November 3, 1997

/s/ David Hall

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David Hall

/s/ Patricia Gallup

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Patricia Gallup

/s/ David Beffa-Negrini

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David Beffa-Negrini

/s/ Martin Murrer

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Martin Murrer

/s/ Peter Baxter

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Peter Baxter

REVOLVING CREDIT NOTE

\$45,000,000.00

Boston, Massachusetts  
November 19, 1997

For value received, PC CONNECTION, INC. (the "Borrower") hereby promises to pay to STATE STREET BANK AND TRUST COMPANY (the "Bank"), or order, at the head office of the Bank at 225 Franklin Street, Boston, Massachusetts 02110, on May 31, 1999 the principal amount of up to FORTY-FIVE MILLION DOLLARS (\$45,000,000.00), or such lesser amount as shall have been advanced and not have been prepaid, in immediately available funds, together with interest on the unpaid principal hereof. Interest shall be payable monthly in arrears on the last day of each month beginning on November 30, 1997 at the variable rate per annum equal to the Bank's Prime Rate, in effect from time to time. "Prime Rate" shall mean the rate of interest announced by the Bank in Boston from time to time as its "Prime Rate." Each change in such interest rate shall take effect simultaneously with the corresponding change in such Prime Rate. Interest shall be computed on the basis of a 360-day year for the actual number of days elapsed, including holidays or other days on which the Bank is not open for the conduct of banking business. The Borrower may also elect a LIBOR based rate of interest equal to the Adjusted LIBOR Rate plus two percent (2.0%) per annum to apply to all or a portion of the outstanding principal hereunder in accordance with, and subject to the terms and conditions of, the Loan Agreement (defined below). The "Adjusted LIBOR Rate" is defined in the Loan Agreement.

All loans hereunder and all payments on account of principal and interest hereof shall be recorded by the Bank and prior to any transfer hereof, endorsed on Schedule I attached hereto and incorporated herein. The entries on the records of the Bank (including any appearing on this Note) shall be prima facie evidence of amounts outstanding hereunder.

Overdue payments of principal (whether at stated maturity by acceleration or otherwise), and, to the extent permitted by law, overdue interest, shall bear interest, compounded monthly and payable on demand in immediately available funds, at a rate per annum equal to four percent (4%) above the Bank's Prime Rate in effect from time to time.

This Note is issued pursuant to, and entitled to the benefits of, and is subject to, the provisions of the Amended and Restated Commercial Loan Agreement dated as of March 31, 1997, as amended by amendment of even date herewith, by and between the Borrower and the Bank (such agreement, as it may from time to time hereafter be amended or extended, the "Loan Agreement"), wherein it is defined as the "Revolving Credit Note" and the indebtedness evidenced thereby the "Revolving Credit," but neither this reference to the Loan Agreement nor any provision thereof

shall affect or impair the absolute and unconditional obligation of the Borrower of this Note to pay the principal of and interest on this Note as herein provided.

The indebtedness evidenced by this Note is secured by a security interest in all of Borrower's assets and property interests granted to the Bank pursuant to an Amended and Restated Security Agreement dated March 31, 1997 herewith by and between Bank and Borrower, as the same may be from time to time amended or extended.

In case an Event of Default (as defined in the Loan Agreement) shall occur, the aggregate unpaid principal of plus accrued interest on this Note shall become or may be declared to be due and payable in the manner and with the effect provided in the Loan Agreement.

The Borrower may at its option prepay all or any part of the principal of this Note before maturity upon the terms provided in the Loan Agreement, including in particular Sections 2.04.5 and 2.04.7 of the Loan Agreement.

Any deposits or other sums at any time credited by or due from the Bank to the Borrower or any endorser or guarantor hereof and any securities or other property of the Borrower or any endorser or guarantor at any time in the possession of the Bank may at all times be held and treated as collateral for the payment of this Note and any and all other liabilities (direct or indirect, absolute or contingent, sole, joint or several, secured or unsecured, due or to become due, now existing or hereafter arising) of the Borrower to the Bank. Regardless of the adequacy of collateral, the Bank may apply or set-off such deposits or other sums against such liabilities at any time in the case of makers but only with respect to matured liabilities in the case of endorsers and guarantors.

The Borrower hereof hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement hereof and consents that this Note may be extended from time to time and that no such extension or other indulgence, and no substitution, release or surrender of collateral and no discharge or release of any other party primarily or secondarily liable hereon, shall discharge or otherwise affect the liability of the Borrower, endorser or guarantor. No delay or omission on the part of the Bank in exercising any right hereunder shall operate as a waiver of such right or of any other right hereunder, and a waiver of any such right on any one occasion shall not be construed as a bar to or waiver of any such right on any future occasion.

This note is executed and delivered in substitution and replacement of the Revolving Credit Note dated March 31, 1997, made by Borrower to the Bank's order in the original principal amount of up to \$40,000,000.00, and does not constitute a

discharge of the indebtedness evidenced thereby or a novation of the underlying loan transaction.

This instrument shall have the effect of an instrument executed under seal and shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts (without giving effect to any conflicts of laws provisions contained therein).

WITNESS: PC CONNECTION, INC.

/s/ Paul Drahnak By: /s/ Wayne L. Wilson  
-----  
Wayne L. Wilson  
Senior Vice President and  
Chief Operating Officer

Address:  
528 Route 13, Milford, NH 03055

STATE STREET BANK AND TRUST COMPANY  
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RSA 399-B STATEMENT OF FINANCE CHARGES  
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In connection with a loan transaction consummated this 19th day of November, 1997, involving a certain revolving credit loan in the maximum availability of \$45,000,000.00 (the "Revolving Credit") and a certain term loan in the principal amount of \$5,000,000.00 (the "Term Loan") (collectively, the Revolving Credit and the Term Loan are referred to as the "Loan") made by STATE STREET BANK AND TRUST COMPANY ("Bank") to PC CONNECTION, INC. ("Borrower"), pursuant and subject to the Amended and Restated Commercial Loan Agreement of even date herewith between the Bank and the Borrower, as amended this date (the "Loan Agreement"), the Borrower is hereby informed and advised pursuant to New Hampshire RSA 399-B that Borrower shall be liable for and shall pay the following charges (all capitalized terms not defined herein shall have the meanings ascribed to them in the Loan Agreement or the Revolving Credit Note or the Term Note evidencing the Loan) in connection with such Loan:

1. Interest.  
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A. Revolving Credit: The Borrower shall pay interest on the outstanding  
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principal balance of the Revolving Credit as follows: A variable rate equal to the Bank's Prime Rate in effect from time to time. The Prime Rate shall be the rate of interest announced by the Bank in Boston from time to time as its Prime Rate. Each time the Prime Rate changes, the interest rates on the Note shall change contemporaneously with such change. The Prime Rate is an index only, and is not necessarily the lowest rate charged by the Bank to its commercial customers. The Borrower may also elect a LIBOR based rate of interest equal to the Adjusted LIBOR Rate plus two percent (2.0%) per annum to apply to all or a portion of the outstanding principal under the Revolving Credit Loan in accordance with, and subject to the limitations of, the Loan Agreement. Interest shall be calculated and charged daily on the basis of actual days elapsed over a three hundred sixty (360) day banking year.

B. Term Loan: The Borrower shall pay interest on the outstanding  
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principal balance of the Term Loan as follows: A variable rate equal to the Bank's Prime Rate in effect from time to time. The Borrower may also elect a Cost of Funds based rate equal to the then Cost of Funds rate plus two and one-half percent (2.5%) per annum to apply to outstanding principal under the Term Loan in accordance with, and subject to the limitations of, the Loan Agreement. Interest shall be calculated and charged daily on the basis of actual days elapsed over a three hundred sixty (360) day banking year.

2. Costs and Expenses of Closing. The Borrower shall pay all closing costs  
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incurred by the Bank in connection with the amendment this date of the Revolving Credit and the Term Loan, including, without limitation, document preparation costs,

costs associated with the forty percent (40%) participation in the Loan, attorneys' fees and costs, recording and filing fees, and any other expenses incurred by the Bank in the closing of the amendment of the Loan.

3. Unused Revolving Credit Fee. Borrower shall continue to be obligated to  
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pay to the Bank quarterly in arrears a fee equal to one-quarter of one percent (.25%) of the average daily amount by which the maximum commitment under the Revolving Credit exceeds the actual principal amount outstanding thereunder on a daily basis during each fiscal quarter, as determined by the Bank.

4. Other Charges. Late Charges, Default Rate and other fees shall be charged  
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as provided in the Loan Agreement, the Notes and the other Loan Documents, all as modified this date.

The Borrower hereby acknowledges receipt of a copy of this Statement at or before the closing of even date, and confirms that this transaction involves a commercial loan not subject to federal truth-in-lending laws and regulations.

Disclosed by Bank and acknowledged by Borrower this 19th day of November, 1997.

WITNESS: PC CONNECTION, INC.

/s/ Paul Drahnak By: /s/ Wayne L. Wilson  
-----  
Duly Authorized

INCUMBENCY CERTIFICATE

I, Steven Markiewicz, Secretary of PC Connection, Inc. ("Corporation") certify as follows:

1. The Restated Articles of Incorporation of the Corporation filed with the New Hampshire Secretary of State on March 30, 1995 have not been amended.
2. The bylaws of the Corporation, attached as Exhibit B to the Incumbency Certificate delivered to State Street Bank & Trust Co. on March 24, 1997, are unchanged except pursuant to a resolution passed during a meeting of the Shareholders and Directors on September 26, 1997, which states as follows: The shareholders and directors voted unanimously to amend the bylaws to increase the number of directors to five (5) and the shareholders voted unanimously to elect Peter J. Baxter as a director of the corporation to serve until the next annual meeting.
3. Attached hereto as Exhibit A is the resolution adopted by the Corporation to increase the amount of the Revolving Credit to a maximum of \$45 million, which has not been rescinded and is in full force and effect.
4. The directors and officers named below have been duly elected and qualified to hold their respective offices set opposite their names:

Members of the Board of Directors:

|                     |               |                 |
|---------------------|---------------|-----------------|
| Patricia Gallup     | Chairman      | Martin Murrer   |
| David Hall          | Vice Chairman | Peter J. Baxter |
| David Beffa-Negrini |               |                 |

Officers:

|                   |  |
|-------------------|--|
| Patricia Gallup   | President & CEO                                    |
| David Hall        | Executive Vice President and Treasurer             |
| Wayne Wilson      | Senior Vice President, CFO and COO                 |
| Robert Wilkins    | Vice President of Merchandising/Product Management |
| Wayne Roland      | Vice President of Fulfillment Operations           |
| John Bomba        | Vice President of Information Services and CIO     |
| Jack Ferguson     | Assistant Treasurer                                |
| Steven Markiewicz | Secretary  |
| Thomas Hemnes     | Assistant Secretary                                |

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Corporation to this Certificate this 7th day of November, 1997.

3

/s/ Helena M. Corey  
-----

/s/ Steven Markiewicz  
-----  
Steven Markiewicz

The undersigned, duly elected COO of the Corporation, certifies that Steven Markiewicz is the duly elected and acting Secretary of the Corporation and that set forth above is his true signature.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this 7th day of November, 1997.

/s/ Wayne L. Wilson  
-----  
Wayne Wilson

4

To Registry of Deeds: Please also index this under property owner: CENTURY PARK, LLC

COLLATERAL ASSIGNMENT OF  
-----  
LEASEHOLD INTEREST  
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COLLATERAL ASSIGNMENT OF LEASEHOLD INTEREST, made this 19th day of November, 1997, by PC CONNECTION, INC, a New Hampshire corporation with a principal place of business at 528 Route 13, Milford, New Hampshire 03055

(individually and collectively the "Assignor"), to STATE STREET BANK AND TRUST COMPANY, a Massachusetts banking corporation with an address of 225 Franklin Street, Boston, Massachusetts 02110 (the "Assignee").

WITNESSETH:

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1. Assignment of Leasehold Interests. For value received, and for other

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good and valuable consideration, the receipt of which is hereby acknowledged by the Assignor, the Assignor hereby grants, transfers and assigns to the Assignee, its successors and assigns, all right, title and interest of the Assignor, as Lessee, in and to those certain Leases referenced on Exhibit A attached hereto,

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with such Lease being incorporated by reference herein, together with any modifications, extensions or renewals thereof, and all benefits accruing to the Assignor thereunder including any purchase options thereunder (said Leases, together with all such modifications, extensions, renewals and benefits being hereinafter referred collectively as the "Lease"). The within assignment is for the purpose of securing payment and performance of all debts, liabilities and obligations of the Assignor to the Assignee of every kind and description, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising pursuant to, without limitation, an Amended and Restated Commercial Loan Agreement dated as of March 31, 1997 by and between the Assignor and the Assignee, as amended as of the date hereof and as may be amended from time to time hereafter (the "Loan Agreement"), under the Revolving Credit Note of even date of Assignor payable to the order of Assignee in the principal amount of up to Forty-Five Million Dollars (\$45,000,000.00), the Term Note dated March 31, 1997, as modified by a Note Modification Agreement of even date of the Assignor payable to the Assignee in the principal amount of Five Million Dollars (\$5,000,000.00) (collectively, as the foregoing notes may be amended, modified or extended, the "Note"), or under any agreements or documents given as security for the Note (all hereinafter called "Obligations"). Terms not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement.

The Assignee, by acceptance hereof, agrees:

a. Not to take any action to assert its rights to possession of the premises demised under the Lease (the "Premises") unless and until there shall

exist or occur a default hereunder, an Event of Default (as defined in any Loan Document) or any default respecting any Obligation.

b. Upon payment and performance in full of all Obligations, this Assignment shall be void and of no effect. However, the affidavit, certificate, or other written statement of any officer of the Assignee indicating that any of the Obligations remain unpaid or unperformed shall be and constitute conclusive evidence of the continuing validity and effectiveness of this Assignment, and any person may, and is hereby authorized to, rely thereon.

2. Warranties of the Assignor. The Assignor warrants that:

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a. The Assignor has not executed any prior assignment of any of its rights under the Lease or encumbered its leasehold interest in the Lease in any manner whatsoever.

b. The Assignor has not done anything which might prevent the Assignee from, or limit the Assignee in, operating under any of the provisions hereof or of the Lease.

c. There is no default, and no event has occurred which with the giving of notice or the passage of time or both would constitute a default, by the Assignor under the Lease.

d. The Lease is in full force and effect and has not been modified in any respect.

e. The Assignor has delivered to the Assignee a true, accurate, and complete copy of the Lease.



f. The Assignor has the right to assign said Lease to the Assignee hereunder and all necessary consents to assignment, if any, have been obtained.

g. The Assignor has the right, power, legal capacity, and authority to enter into and perform its obligations under this Assignment, and no approval, consent, order or authorization of or registration or filing with any governmental authority or any other person or entity is necessary or required in connection with this Assignment, and this Assignment will not result in the breach of any document to which the Assignor is a party or any decree or order to which the Assignor is subject.

-2-

3. Agreements of the Assignor. The Assignor agrees that:

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a. The Assignee may, in its sole discretion and at the expense of the Assignor, record or cause to be recorded this Assignment.

b. The Assignor will, at its sole cost and expense, observe, fulfill and perform on a timely basis each and every condition and covenant of the Lease by the Assignor to be observed, fulfilled or performed, including the payment of all rents accruing at the time they shall become due; give prompt notices to the Assignee of any notice received by the Assignor of default by the Assignor under the Lease, together with a complete copy of any such notice; not modify, extend or in any way alter the terms of the Lease other than in the ordinary course of business; not terminate the term of the Lease or accept a surrender thereof unless required to do so by the terms of the Lease; not waive, or release the lessor from, any obligations or conditions to be performed by the lessor under the Lease; not sublease any portion of the premises demised under the Lease or assign the Lease or encumber or transfer Assignor's interest in the Lease in any manner whatsoever.

4. Terms and Conditions.

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a. The Assignor grants to the Assignee the right, upon or at any time or times after the occurrence or existence of a default by the Assignor under any of the Lease, to cure any such default(s) if the Assignee so elects.

b. At the Assignor's sole cost and expense, the Assignor will appear in and defend any action growing out of or in any manner connected with the Lease or the obligations or liabilities of the lessor, the Assignor or any guarantor thereunder.

c. Should the Assignor fail to do any act as herein provided, then, upon written notice, the Assignee may, but without obligation to do so, make or do the same, including specifically, without limitation, appearing in and defending any action purporting to affect the security hereof or the rights or powers of the Assignee and performing any obligation of the Assignor contained in the Lease, and in exercising any such powers paying necessary court costs, reasonable attorneys' fees, and expenses; and the Assignor will pay immediately upon demand all sums expended by the Assignee under the authority hereof, together with highest rate of interest thereon at the rate from time to time applicable under the Note, and the same shall be included as Obligations and shall be secured hereby and by any and all other collateral at any time given by the Assignor to the Assignee to secure the Obligations.

-3-

d. After the occurrence of any default under the Loan Documents or respecting any Obligations, the Assignee, at its option, without notice, and without regard to the adequacy of security for the Obligations, either in person or by agent, with or without bringing any action or proceeding, the Assignee shall have the option to take possession of the Premises, and to hold the same as lessee under the Lease; and, with or without taking physical possession of the Premises: (i) to collect income and profits from operation of the Premises and to apply such income and profits, in such

priority as Assignee in its sole discretion may determine, to payment of all expenses of operating, managing and maintaining the Premises, specifically including rent and additional rent under the Lease, and then to payment of the principal, interest and other indebtedness due to the Assignee, together with costs and attorneys' fees; (ii) to execute all options to extend the Lease; (iii) to further assign the rights of the lessee under the Lease, without any right of redemption by the Assignor; and (iv) in general, do any acts which the Assignee deems proper to protect the security hereof or which the lessee under the Lease shall have the right to do; provided, however, that the Assignee must assume the

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Assignor's obligations on a prospective basis under the Lease if the Assignee assumes the Assignor's rights under the Lease; provided, further,  
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that such assumption shall not relieve the Assignor of its obligations under the Lease, and the Assignor shall remain primarily liable for such obligations.

e. The Assignee shall not be obligated to perform or discharge any obligation under the Lease or by reason of this Assignment and the Assignor hereby agrees to indemnify and hold harmless the Assignee from and against any and all liability, loss, damage, cost, or expense which the Assignee may or might incur under the Lease or under or by reason of this Assignment, and from and against any and all claims and demands whatsoever which may be asserted against the Assignee by reason of any alleged obligations or undertaking on its part to perform or discharge any of the terms of the Lease, excepting only those actions actually taken by Assignee under this Assignment. Without limitation of the foregoing, it is further understood that this Assignment shall not at any time operate to place responsibility upon the Assignee for the control, care, management or repair of the Premises, nor for the carrying out of any of the provisions of the Lease, nor shall it operate to make the Assignee responsible or liable for any waste committed on the Premises by the Assignor or any other parties, or for any dangerous or defective condition of said Premises, or for any negligence in the management, upkeep, repair or control of the Premises resulting in loss or injury or death to any person, excepting only those actions actually taken by Assignee under this Assignment. Should the Assignee incur any such liability, loss or damage under the Lease or under or by reason of this Assignment, or in defense against any such claims or demands, the amount thereof, including costs, expenses, and attorneys' fees, together with interest thereon at the highest rate

-4-

from time to time applicable under the Note, shall be included as Obligations and shall be secured hereby and by any and all collateral at any time given by the Assignor to the Assignee to secure the Obligations, and the Assignor shall reimburse the Assignee there for immediately upon demand.

5. Miscellaneous.  
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a. The rights of the Assignee hereunder shall not be affected by any extensions, renewals, indulgences, settlements, or compromises respecting any obligations; by the release of any party primarily or secondarily liable respecting any Obligations; or by the taking or release by the Assignee of any security for any Obligations or for the performance by any party primarily or Secondarily liable respecting any Obligations.

b. No delay or omission on the part of the Assignee in exercising any right or remedy shall operate as a waiver of such right or remedy or any other right or remedy. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion.

c. All the Assignee's rights and remedies, whether evidenced hereby or by any other agreement or instrument, or whether otherwise available, shall be cumulative.

d. Any demand or notice which any party may be required to or may elect to give shall be given as provided in the Loan Agreement.

e. All rights of the Assignee hereunder shall inure to the benefit of the successors and assigns of the Assignee, and this Assignment shall bind

the Assignor's successors and assigns.

f. If any provision hereof shall be invalid or unenforceable in any respect, the remaining provisions hereof shall remain in full force and effect and shall be enforceable to the maximum extent Permitted by law.

g. No consent, approval, or waiver shall be binding on the Assignee unless in writing.

h. This Assignment and all rights and obligations hereunder, including matters of construction, validity, and performance, shall be governed by the laws of the State of New Hampshire and shall be construed liberally in favor of the Assignee.

-5-

WITNESS the execution hereof, as a sealed instrument, on this the 19th day of November, 1997.

PC CONNECTION, INC.

/s/ Paul Drahnak  
-----  
Witness  
President

By: /s/ Wayne L. Wilson  
-----  
Wayne L. Wilson, Senior Vice

/s/ Jack L. Ferguson  
-----  
Witness

STATE STREET BANK AND TRUST COMPANY

/s/  
-----  
Witness

By /s/ Thomas J. Pyles  
-----  
Thomas J. Pyles, Vice President

/s/ Dawn R. Miller  
-----  
Witness

STATE OF NEW HAMPSHIRE  
COUNTY OF HILLSBOROUGH, SS.

On this the 19th day of NOVEMBER, 1997, before, me, the undersigned notary or justice, personally appeared Thomas J. Pyles, who acknowledged himself to be a Vice President of State Street Bank and Trust Company, a bank, and that he, as such authorized officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as such authorized officer.

/s/ Wayne Bruce LeBlanc  
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Notary Public  
My commission expires: June 19, 2003

STATE OF NEW HAMPSHIRE  
COUNTY OF HILLSBOROUGH, SS.

On this the 19th day of November, 1997, before me, the undersigned notary or justice, personally appeared Wayne L. Wilson, who acknowledged himself to be a

-6-

Senior Vice President of PC Connection, Inc., a corporation, and that he, as such authorized officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as such authorized officer.

/s/ Dolores R. Collins  
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Dolores R. Collins,  
Notary Public  
My commission expires: January 27, 1999

-7-

Xenia, Ohio

COLLATERAL ASSIGNMENT OF  
-----  
LEASEHOLD INTEREST  
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COLLATERAL ASSIGNMENT OF LEASEHOLD INTEREST, made this 19th day of November, 1997, by PC CONNECTION, INC, a New Hampshire corporation with a principal place of business at 528 Route 13, Milford, New Hampshire 03055 (individually and collectively the "Assignor"), to STATE STREET BANK AND TRUST COMPANY, a Massachusetts banking corporation with an address of 225 Franklin Street, Boston, Massachusetts 02110 (the "Assignee").

WITNESSETH:  
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1. Assignment of Leasehold Interests. For value received, and for other  
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good and valuable consideration, the receipt of which is hereby acknowledged by the Assignor, the Assignor hereby grants, transfers and assigns to the Assignee, its successors and assigns, all right, title and interest of the Assignor, as Lessee, in and to those certain Leases referenced on Exhibit A attached hereto,  
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with such Lease being incorporated by reference herein, together with any modifications, extensions or renewals thereof; and all benefits accruing to the Assignor thereunder including any purchase options thereunder (said Leases, together with all such modifications, extensions, renewals and benefits being hereinafter referred collectively as the "Lease"). The within assignment is for the purpose of securing payment and performance of all debts, liabilities and obligations of the Assignor to the Assignee of every kind and description, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising pursuant to, without limitation, an Amended and Restated Commercial Loan Agreement dated as of March 31, 1997 by and between the Assignor and the Assignee, as amended as of the date hereof and as may be amended from time to time hereafter (the "Loan Agreement"), under the Revolving Credit Note of even date of Assignor payable to the order of Assignee in the principal amount of up to Forty-Five Million Dollars (\$45,000,000.00), the Term Note dated March 31, 1997, as modified by a Note Modification Agreement of even date of the Assignor payable to the Assignee in the principal amount of Five Million Dollars (\$5,000,000.00) (collectively, as the foregoing notes may be amended, modified or extended, the "Note"), or under any agreements or documents given as security for the Note (all hereinafter called "Obligations"). Terms not otherwise defined herein shall have the meanings ascribed to them in the Loan Agreement.

The Assignee, by acceptance hereof; agrees:

a. Not to take any action to assert its rights to possession of the premises demised under the Lease (the "Premises") unless and until there shall exist or occur a default hereunder, an Event of Default (as defined in any Loan Document) or any default respecting any Obligation.

b. Upon payment and performance in full of all Obligations, this Assignment shall be void and of no effect. However, the affidavit, certificate, or other written statement of any officer of the Assignee indicating that any of the Obligations remain unpaid or unperformance shall be and constitute conclusive evidence of the continuing validity and effectiveness of this Assignment, and any person may, and is hereby authorized to, rely thereon.

2. Warranties of the Assignor. The Assignor warrants that:  
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a. The Assignor has not executed any prior assignment of any of its rights under the Lease or encumbered its leasehold interest in the Lease in any manner whatsoever.

b. The Assignor has not done anything which might prevent the Assignee from, or limit the Assignee in, operating under any of the provisions hereof or of the Lease.

c. There is no default, and no event has occurred which with the giving of notice or the passage of time or both would constitute a default, by the Assignor under the Lease.

d. The Lease is in full force and effect and has not been modified in any respect.

e. The Assignor has delivered to the Assignee a true, accurate, and complete copy of the Lease.

f. The Assignor has the right to assign said Lease to the Assignee hereunder and all necessary consents to assignment, if any, have been obtained.

g. The Assignor has the right, power, legal capacity, and authority to enter into and perform its obligations under this Assignment, and no approval, consent, order or authorization of or registration or filing with any government authority or any other person or entity is necessary or required in connection with this Assignment, and this Assignment will not result in the breach of any document to which the Assignor is party or any decree or order to which the Assignor is subject.

3. Agreements of the Assignor. The Assignor agrees that:  
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a. The Assignee may, in its sole discretion and at the expense of the Assignor, record or cause to be recorded this Assignment.

-2-

b. The Assignor will, at its sole cost and expense, observe, fulfill and perform on a timely basis each and every condition and covenant of the Lease by the Assignor to be observed, fulfilled or performed, including the payment of all rents accruing at the time they shall become due; give prompt notices to the Assignee of any notice received by the Assignor of default by the Assignor under the Lease, together with a complete copy of any such notice; not modify, extend or in any way alter the terms of the Lease other than in the ordinary course of business; not terminate the term of the Lease or accept a surrender thereof unless required to do so by the terms of the Lease; not waive, or release the lessor from, any obligations or conditions to be performed by the lessor under the Lease; not sublease any portion of the premises demised under the Lease or assign the Lease or encumber or transfer Assignor's interest in the Lease in any manner whatsoever.

4. Terms and Conditions.  
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a. The Assignor grants to the Assignee the right, upon or at any time or times after the occurrence or existence of a default by the Assignor under any of the Lease, to cure any such default(s) if the Assignee so elects.

b. At the Assignor's sole cost and expense, the Assignor will appear in and defend any action growing out of or in any manner connected with the Lease or the obligations or liabilities of the lessor, the Assignor or any guarantor thereunder.

c. Should the Assignor fail to do any act as herein provided, then, upon written notice, the Assignee may, but without obligation to do so, make or do the same, including specifically, without limitation, appearing in and defending any action purporting to affect the security hereof or the rights or powers of the Assignee and performing any obligation of the Assignor contained in the Lease, and in exercising any such powers paying necessary court costs, reasonable attorneys' fees, and expenses; and the

Assignor will pay immediately upon demand all sums expended by the Assignee under the authority hereof; together with highest rate of interest thereon at the rate from time to time applicable under the Note, and the same shall be included as Obligations and shall be secured hereby and by any and all other collateral at any time given by the Assignor to the Assignee to secure the Obligations.

d. After the occurrence of any default under the Loan Documents or respecting any Obligations, the Assignee, at its option, without notice, and without regard to the adequacy of security for the Obligations, either in person or by agent, with or without bringing any action or proceeding, the Assignee shall have the option to take possession of the Premises, and to hold the same as lessee under the Lease; and, with or without taking physical possession of the Premises:

-3-

(i) to collect income and profits from operation of the Premises and to apply such income and profits, in such priority as Assignee in its sole discretion may determine, to payment of all expenses of operating, managing and maintaining the Premises, specifically including rent and additional rent under the Lease, and then to payment of the principal, interest and other indebtedness due to the Assignee, together with costs and attorneys' fees; (ii) to execute all options to extend the Lease; (iii) to further assign the rights of the lessee under the Lease, without any right of redemption by the Assignor; and (iv) in general, do any acts which the Assignee deems proper to protect the security hereof or which the lessee under the Lease shall have the right to do; provided, however, that the

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Assignee must assume the Assignor's obligations on a prospective basis under the Lease if the Assignee assumes the Assignor's rights under the Lease; provided, further, that such assumption shall not relieve the

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Assignor of its obligations under the Lease, and the Assignor shall remain primarily liable for such obligations.

e. The Assignee shall not be obligated to perform or discharge any obligation under the Lease or by reason of this Assignment and the Assignor hereby agrees to indemnify and hold harmless the Assignee from and against any and all liability, loss, damage, cost, or expense which the Assignee may or might incur under the Lease or under or by reason of this Assignment, and from and against any and all claims and demands whatsoever which may be asserted against the Assignee by reason of any alleged obligations or undertaking on its part to perform or discharge any of the terms of the Lease, excepting only those actions actually taken by Assignee under this Assignment. Without limitation of the foregoing, it is further understood that this Assignment shall not at any time operate to place responsibility upon the Assignee for the control, care, management or repair of the Premises, nor for the carrying out of any of the provisions of the Lease, nor shall it operate to make the Assignee responsible or liable for any waste committed on the Premises by the Assignor or any other parties, or for any dangerous or defective condition of said Premises, or for any negligence in the management, upkeep, repair or control of the Premises resulting in loss or injury or death to any person, excepting only those actions actually taken by Assignee under this Assignment. Should the Assignee incur any such liability, loss or damage under the Lease or under or by reason of this Assignment, or in defense against any such claims or demands, the amount thereof; including costs, expenses, and attorneys' fees, together with interest thereon at the highest rate from time to time applicable under the Note, shall be included as Obligations and shall be secured hereby and by any and all collateral at any time given by the Assignor to the Assignee to secure the Obligations, and the Assignor shall reimburse the Assignee therefor immediately upon demand.

-4-

5. Miscellaneous.

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a. The rights of the Assignee hereunder shall not be affected by any extensions, renewals, indulgences, settlements, or compromises respecting any Obligations; by the release of any party primarily or secondarily liable respecting any Obligations; or by the taking or release by the

Assignee of any security for any Obligations or for the performance by any party primarily or secondarily liable respecting any Obligations.

b. No delay or omission on the part of the Assignee in exercising any right or remedy shall operate as a waiver of such right or remedy or any other right or remedy. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion.

c. All the Assignee's rights and remedies, whether evidenced hereby or by any other agreement or instrument, or whether otherwise available, shall be cumulative.

d. Any demand or notice which any party may be required to or may elect to give shall be given as provided in the Loan Agreement.

e. All rights of the Assignee hereunder shall inure to the benefit of the successors and assigns of the Assignee, and this Assignment shall bind the Assignor's successors and assigns.

f. If any provision hereof shall be invalid or unenforceable in any respect, the remaining provisions hereof shall remain in full force and effect and shall be enforceable to the maximum extent permitted by law.

g. No consent, approval, or waiver shall be binding on the Assignee unless in writing.

h. This Assignment and all rights and obligations hereunder, including matters of construction, validity, and performance, shall be governed by the laws of the State of New Hampshire and shall be construed liberally in favor of the Assignee.

-5-

WITNESS the execution hereof; as a sealed instrument, on this the 19th day of November, 1997.

PC CONNECTION, INC.

/s/ Paul Drahnak  
-----  
Witness

By: /s/ Wayne L. Wilson  
-----  
Wayne L. Wilson,  
Senior Vice President

/s/ Jack L. Ferguson  
-----  
Witness

STATE STREET BANK AND  
TRUST COMPANY

/s/  
-----  
Witness

By: /s/ Thomas J. Pyles  
-----  
Thomas J. Pyles, Vice President

/s/ Dawn R. Miller  
-----  
Witness

STATE OF NEW HAMPSHIRE  
COUNTY OF HILLSBOROUGH, SS.

On this the 19th day of November, 1997, before me, the undersigned notary or justice, personally appeared Thomas J. Pyles, who acknowledged himself to be a Vice President of State Street Bank and Trust Company, a bank, and that he, as such authorized officer, being authorized So to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as such authorized officer.

/s/ Wayne Bruce LeBlanc

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Notary Public  
My commission expires: June 19, 2003

STATE OF NEW HAMPSHIRE  
COUNTY OF HILLSBOROUGH, SS.

On this the 19th day of November, 1997, before me, the undersigned notary or justice, personally appeared Wayne L. Wilson, who acknowledged himself to be a Senior

-6-

Vice President of PC Connection, Inc., a corporation, and that he, as such authorized officer, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as such authorized officer.

/s/ Dolores R. Collins  
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Dolores R. Collins,  
Notary Public  
My commission expires: January 27, 1999

-7-

Schedules and Exhibits may be obtained from the Registrant upon written request.

-8-



EMPLOYMENT AGREEMENT

In consideration of employment and compensation to be paid to Patricia Gallup (the "Employee") by PC Connection, Inc. (the "Corporation"), a New Hampshire corporation, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Term. The Corporation hereby agrees to continue to employ the Employee, and the Employee hereby agrees to continue employment with the Corporation, upon the terms set forth in this Agreement. The employment pursuant to this Agreement shall commence January 1, 1998. The employment shall be "at will"; that is, the Employee or the Corporation may elect to terminate the employment relationship at any time.
2. Title; Capacity. The Employee agrees to serve in her capacity as Chairman of the Board, President and Chief Executive Officer. The Employee hereby agrees to continue to undertake the duties and responsibilities inherent in such position. The Employee agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Corporation and any changes therein which may be adopted from time to time by the Corporation.
3. Compensation and Benefits.
  - (a) Salary. The Corporation shall pay the Employee, in semi-monthly installments, an annual base salary of \$300,000.00 for the period January 1, 1998 through December 31, 1998 in consideration for the duties performed by the Employee. Such salary shall be payable for any period in which the Employee renders services hereunder. Such salary shall be subject to adjustment thereafter as determined by the Compensation Committee (the "Committee") of the Board of Directors (the "Board") or, in the absence of such Committee, by the Board.
  - (b) Fringe Benefits. The Employee shall be entitled to participate in bonus and benefit programs that the Corporation establishes and makes available to its employees, if any, to the extent that the Employee's participation is approved by the Committee or the Board.
4. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.
5. Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Corporation and the Employee.
6. Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of New Hampshire.
7. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Corporation may be merged or which may succeed to its assets or business, provided, however, that the obligations of the Employee are personal and shall not be assigned by her.
8. Miscellaneous. In case any provision of this Agreement shall be invalid, illegal or otherwise unenforceable, the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of

the 12th day of January, 1998.

PC CONNECTION, INC.

By: /s/Wayne L. Wilson

Title: Chief Financial Officer

EMPLOYEE

/s/ Patricia Gallup

Patricia Gallup

EMPLOYMENT AGREEMENT

In consideration of employment and compensation to be paid to David Hall (the "Employee") by PC Connection, Inc. (the "Corporation"), a New Hampshire corporation, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Term. The Corporation hereby agrees to continue to employ the Employee,  
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and the Employee hereby agrees to continue employment with the Corporation, upon the terms set forth in this Agreement. The employment pursuant to this Agreement shall commence January 1, 1998. The employment shall be "at will"; that is, the Employee or the Corporation may elect to terminate the employment relationship at any time.
  
2. Title; Capacity. The Employee agrees to serve in his current capacity of  
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Vice Chairman of the Board. The Employee hereby agrees to continue to undertake the duties and responsibilities inherent in such position. The Employee agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Corporation and any changes therein which may be adopted from time to time by the Corporation.
  
3. Compensation and Benefits.  
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  - (a) Salary. The Corporation shall pay the Employee, in semi-monthly  
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installments, an annual base salary of \$300,000.00 for the period January 1, 1998 through December 31, 1998 in consideration of the duties performed by the Employee. Such salary shall be payable for any period in which the Employee renders services hereunder. Such salary shall be subject to adjustment thereafter as determined by the Compensation Committee (the "Committee") of the Board of Directors (the "Board") or, in the absence of such Committee, by the Board.
  
  - (b) Fringe Benefits. The Employee shall be entitled to participate in  
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bonus and benefit programs that the Corporation establishes and makes available to its employees, if any, to the extent that the Employee's participation is approved by the Committee or the Board.
  
4. Entire Agreement. This Agreement constitutes the entire agreement between  
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the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.
  
5. Amendment. This Agreement may be amended or modified only by a written  
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instrument executed by both the Corporation and the Employee.
  
6. Governing Law. This Agreement shall be construed, interpreted and enforced  
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in accordance with the laws of the State of New Hampshire.
  
7. Successors and Assigns. This Agreement shall be binding upon and inure to  
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the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Corporation may be merged or which may succeed to its assets or business, provided, however, that the obligations of the Employee are personal and shall not be assigned by him.
  
8. Miscellaneous. In case any provision of this Agreement shall be invalid,  
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illegal or otherwise unenforceable, the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the 12th day of January, 1998.

PC CONNECTION, INC.

By: /s/ Patricia Gallup  
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Title: Chairman and Chief Executive Officer  
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EMPLOYEE

/s/ David Hall  
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David Hall

INDEPENDENT AUDITORS' CONSENT

EXHIBIT 23.1

We consent to the use in this Amendment No. 1 to Registration Statement No. 333-41171 of PC Connection, Inc. of our report dated November 4, 1997 (December 29, 1997 as to the third through eighth paragraphs of Note 12), appearing in the Prospectus, which is part of such Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

Deloitte & Touche LLP

Boston, Massachusetts

January 12, 1998