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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE COMMISSION

Commission File Number 0-23827

PC CONNECTION, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**02-0513618** (I.R.S. Employer Identification No.)
Rt. 101A, 730 Milford Road **Merrimack, New Hampshire** (Address of principal executive offices)	**03054** (Zip Code)

(603) 683-2000
Registrant's telephone number, including area code

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

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

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

YES ☒ **NO** ☐

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

Indicate by check mark whether the registrant is an accelerated filer as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

YES ☐ **NO** ☒

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, based upon the closing price of the Registrant's Common Stock as reported on the NASDAQ National Market on June 30, 2003, was $48,845,559. Although directors and executive officers of the registrant were assumed to be "affiliates" of the registrant for the purposes of this calculation, this classification is not to be interpreted as an admission of such status.

The number of outstanding shares of the Registrant's Common Stock on March 12, 2004 was 24,997,877.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2004 Annual Meeting of Shareholders for the fiscal year ended December 31, 2003, which is to be filed within 120 days of the end of the Company's fiscal year, are incorporated by reference into Part III of this Form 10-K. The incorporation by reference herein of portions of the Proxy Statement shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

PC CONNECTION, INC. AND SUBSIDIARIES

FORM 10-K ANNUAL REPORT
YEAR ENDED DECEMBER 31, 2003

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PART I

Item 1. Business

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

GENERAL

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

We maintain a Web site with the address www.pcconnection.com. We are not including the information contained in our Web site as part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission.

Since our founding in 1982, we have served our customers' needs by providing innovative, reliable, and timely service and technical support, and by offering an extensive assortment of branded products, through knowledgeable, well-trained sales and support teams. Our strategy's effectiveness is reflected in the recognition we have received, including being named to the Forbes Platinum 400, the Fortune 1000, and Information Week's list of Top 500 leading IT Innovators.

We believe that our consistent customer focus has also resulted in the development of strong brand name recognition and a broad and loyal customer base. At December 31, 2003, our mailing list consisted of approximately 3,860,000 customers and potential customers, of which approximately 499,000 had purchased products from us within the last twelve months. Approximately 87% of our net sales in the year ended December 31, 2003 were made to customers who had previously purchased products from us. We believe we also have strong relationships with vendors, resulting in favorable product allocations and marketing assistance.

Our business-to-business marketing efforts are targeted to SMBs, government and educational organizations, and medium-to-large corporate accounts. As of December 31, 2003, we employed 519 account managers, including 191 new account managers with less than 12 months of outbound telemarketing experience with us. Account managers are responsible for managing corporate accounts and focus on outbound sales calls to prospective customers. We are continuing to focus on increasing the productivity of our account managers.

We publish several catalogs, including PC Connection®, focused on PCs and compatible products, and MacConnection®, focused on Apple Macintosh personal computers, known as Macs, and compatible products. With colorful illustrations, concise product descriptions, relevant technical information, along with toll-free telephone numbers for ordering, our catalogs are recognized as a leading source for personal computer hardware, software, and other related products. We distributed approximately 32 million catalogs during the year ended December 31, 2003.

We also market our products and services through our Internet Web sites, www.pcconnection.com, www.govconnection.com, www.macconnection.com, and www.moredirect.com. Our Web sites provide customers and prospective customers with product information and enable customers to place electronic orders for products. For the fiscal year 2003, Internet sales processed directly online were $212.1 million, or 16.2% of net sales, compared to 15.3% in 2002. These sales during the fourth quarter of 2003 were $59.1 million, or 16.5% of that quarter's net sales, compared to 18.1% for the fourth quarter of 2002.

The Internet supports three key business initiatives for us:

- ***Customer choice*** — We have built our business on the premise that our customers should be able to choose how they interact with us, be it by mail, telephone, fax, e-mail, or over the Web.
- ***Lowering transactions costs*** — Our Web site tools, including robust product search features, Smart Selectors™, Internet Business Accounts, and special interest pages, allow customers to quickly and easily find information about products of interest to them. If customers still have questions, they may call into our Telesales Representatives or Outbound Account Managers. Such phone calls are typically shorter and have higher close rates than calls from customers who have not first visited our Web sites.
- ***Leveraging the time of experienced Account Managers*** — Our investments in technology-based sales and service programs allow our Account Managers to build and maintain relationships with our customers and help them to solve their business problems.

Acquisition of MoreDirect, Inc.

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

MARKET AND COMPETITION

We generate approximately 57% of our sales from the small- and medium-sized business market, approximately 24% from governmental agencies and educational organizations, and 19% from large corporate accounts (Fortune 1000). The overall U.S. Information Technology market that we serve is estimated at approximately $200 billion. Our consolidated sales represents less than 1% of the IT market, providing us with ample growth opportunities. The largest segment of the market is served by local “value added resellers” (“VARs”), many of whom we believe are actively exiting the hardware and software business as margins have become too small.

We have transitioned from an end-user or desktop-centric computing supplier to a network or enterprise-wide computing supplier. We also have partnered with third-party technology and telecommunications service providers. We now offer access to the same services and technical expertise to our customers as local VARs, but with more extensive product selection at lower prices, and therefore, we believe we are well positioned to increase our market share.

Intense competition for customers has led manufacturers of PCs and related products to use all available channels, including direct marketers, to distribute products. Although certain manufacturers who have traditionally used resellers to distribute their products have established or attempted to establish their own direct marketing operations, including sales through the Internet, to our knowledge, only one has replaced its traditional indirect selling channels as the principal means of distribution. Accordingly, we believe that these manufacturers of PCs and related products will continue to provide us and other third-party direct marketers favorable product allocations and marketing support.

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

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

BUSINESS STRATEGIES

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

- ***Providing award-winning customer service before, during, and after the sale.*** We believe that we have earned a reputation for providing superior customer service by consistently focusing on our customers’ needs. We deliver value to our customers through high quality service and technical support provided by our knowledgeable, well-trained personnel. We have efficient delivery programs, and we also offer our customers competitive prices and reasonable return policies.
- ***Offering a broad product selection at competitive prices.*** We offer our customers a wide assortment of information technology products and solutions, including personal computers and related products and networking products, at competitive prices. Our merchandising programs feature products that provide customers with aggressive price and performance and the convenience of one-stop shopping for their personal computer and related needs.
- ***Maintaining a strong brand name and customer awareness.*** Since our founding in 1982, we have built a strong brand name and customer awareness. In 2001, we were named to the Forbes Platinum 400, the Fortune 1000, and Information Week’s list of top 500 Leading IT Innovators. Our mailing list includes approximately 3,860,000 names, of which approximately 499,000 have purchased products from us during the last 12 months.

- ***Maintaining long-standing vendor relationships.*** We have a history of strong relationships with vendors, and were among the first direct marketers qualified by manufacturers to market computer systems to end users. We provide our vendors with both information concerning customer preferences and an efficient channel for the advertising and distribution of their products.

GROWTH STRATEGIES

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

- ***Targeting customer segments.*** Through targeted mailings, we seek to expand the number of our active customers and generate additional sales from our existing customers. We have developed specialty catalogs, as well as standard catalogs with special cover pages, featuring product offerings designed to address the needs of specific customer populations, including new product inserts targeted to purchasers of graphics, server, and networking products.
- ***Expanding product and service offerings.*** We continually evaluate information technology products and services focused on business users, adding new products and services as they become available or in response to customer demand. We work closely with vendors to identify and source first-to-market product offerings at aggressive prices, and believe that the expansion of our corporate outbound marketing program will enhance our access to such product offerings. In addition to using our own inventories, we utilize our distribution and manufacturing suppliers to drop ship products directly to our customers. In 2003 we drop shipped 38.1% of our sales compared to 34.8% in 2002.
- ***Focusing on enterprise server and networking opportunities.*** We are accelerating our transition from an end-user or desktop-centric computing supplier to a network or enterprise-wide computing supplier. In 2003, sales of enterprise server and networking products accounted for 27.5% of our total net sales compared to 26.8% of our total net sales in 2002. Sales of enterprise products typically have larger average order sizes and higher gross margins than do sales of desktop computing products.
- ***Expanding electronic commerce channel.*** Our Internet Web-based catalog provides detailed product descriptions, product search capabilities, and online order processing. This channel provides our customers with a convenient means of shopping with us, and it also allows us to leverage our account managers more effectively. The number of Internet Business Account users grew from 35,000 at the end of 2002 to approximately 77,000 at December 31, 2003. We plan to further improve online sales capabilities, customer service and product information and customer support available on our Internet Web site. We also plan to expand our online affinity sales programs with major customers and thereby solidify our long-term relationship with these customers.
- ***Increasing outbound telemarketing productivity.*** We believe that higher sales productivity is the key to leveraging our expense structure and driving future profitability improvements. We plan to expand and focus our training and evaluation programs, system enhancements, and sales tools more towards assisting our sales personnel in improving their productivity. As we increase our productivity, we plan to increase the number of our corporate account managers and assign them a greater number of our customers.
- ***Pursuing strategic acquisitions and alliances.*** We seek to acquire new customers, strengthen our product offerings, add management talent, and produce operating results which are accretive to our core business earnings. In 2002, we acquired MoreDirect, a premier e-procurement supplier of IT products for medium-to-large corporate and government organizations nationwide.

SERVICE AND SUPPORT

Since our founding in 1982, our primary objective has been to provide products that meet the demands and needs of customers and to supplement those products with up-to-date product information and excellent customer service and support. We believe that offering our customers superior value, through a combination of product knowledge, consistent and reliable service, and leading products at competitive prices, differentiates us from other direct marketers and provides the foundation for developing a broad and loyal customer base.

We invest in training programs for our service and support personnel, with an emphasis on putting customer needs and service first. We provide toll-free technical support from 9 a.m. through 5 p.m., Eastern Time, Monday through Friday. Product support technicians assist callers with questions concerning compatibility, installation, determination of defects, and more difficult questions relating to product use. The product support technicians authorize customers to return defective or incompatible products to either the manufacturer or to us for warranty service. In-house technicians perform both warranty and non-warranty repair on most major systems and hardware products.

Using our customized information system, we send our customer orders to our distribution center for processing immediately after a customer receives credit approval. Through our Everything Overnight® service, we guarantee that all orders accepted up until 2:00 a.m. Eastern time, (until midnight on most custom-configured systems) will be shipped for overnight delivery via Airborne Express. We also configure approximately 14% of the computer systems we sell. Configuration typically consists of the installation of memory, accessories, and/or software.

MARKETING AND SALES

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

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

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

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

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

	Years Ended December 31,		
Sales Channel	**2003**	**2002**	**2001**
Outbound Telemarketing and Field Sales	77%	78%	79%
Catalogs and Inbound Telesales	7	7	12
Online Internet	16	15	9
Total	100%	100%	100%

Outbound Telemarketing and Field Sales. We seek to build loyal relationships with our potential high-volume customers by assigning them to individual account managers. We believe that customers respond favorably to a one-on-one relationship with personalized, well-trained account managers. Once established, these one-on-one relationships are maintained and enhanced through frequent telecommunications and targeted catalogs and other marketing materials designed to meet each customer's specific computing needs. We pay most of our account managers a base annual salary plus incentive compensation. Incentive compensation is tied to gross profit dollars produced by the individual account manager. Account managers historically have significantly increased productivity after approximately 12 months of training and experience. At December 31, 2003, we employed 519 account managers, including 191 with less than 12 months of outbound telemarketing experience with us.

Catalogs and Inbound Telesales. Our two principal catalogs are PC Connection® for the PC market and MacConnection® for the Apple Macintosh market. We publish eleven editions of each of these catalogs annually. We distribute catalogs to purchasers on our in-house mailing list as well as to other prospective customers. In addition, we mail specialty catalogs or customized versions of our catalogs to selected customers. We distribute specialty catalogs to educational and governmental customers and prospects on a periodic basis. We also distribute our monthly catalogs customized with special covers and inserts, offering a wider assortment of special offers on products in specific areas such as graphics, server/netcom, and mobile computing, or for specific customers, such as developers. These customized catalogs are distributed to targeted customers included in our customer database using past identification or purchase history, as well as to outside mailing lists.

Our inbound sales representatives answer customer telephone calls generated by our catalog, magazine, and other advertising programs. These representatives also assist customers in making purchasing decisions, process product orders, and respond to customer inquiries on order status, product pricing, and availability. Using our proprietary information systems, sales representatives can quickly access customer records which detail purchase history and billing and shipping information, expediting the ordering process. In addition to receiving orders through our toll-free numbers, orders are also received via fax, mail, and electronic mail.

Online Internet. (***www.pcconnection.com, www.govconnection.com, www.macconnection.com, and www.moredirect.com)*** We provide product descriptions and prices of all products online. We also provide updated information for over 55,000 items and on screen images for over 35,000 items. We offer, and continuously update, selected product offerings and other special buys. We believe that our Internet Web site will be an increasingly important sales source and communication tool for improving customer service.

Business Segments. We conduct our business operations through three primary business segments: (1) consumer, small- and medium-sized business customers ("SMB"); (2) federal, state and local governments and education institutions ("Public Sector"); and (3) large corporate (Fortune 1000) and governmental organizations ("Large Accounts").

SMB Segment. While we continue to generate credit card sales to consumers, our principal target customers in this segment are small-to-medium-sized business customers with 20 to 1,000 employees. Our primary means of marketing to this segment incorporate all three sales channels—catalog and inbound telesales, particularly to our consumer group, outbound telemarketing, and online Internet sales, primarily to our business customers.

Public Sector Segment. We use a combination of outbound telemarketing, including some on-site sales solicitation by field sales account managers, and online Internet sales through Internet Business Accounts, to reach these customers. Through our GovConnection subsidiary, we target each of the four distinct market sectors within this segment—federal government, higher educational institutions, school grades K through 12, and state and local governments.

Large Account Segment. Through our MoreDirect subsidiary's custom designed Internet-based system, we are able to offer our larger corporate customers an efficient and effective method of sourcing, evaluating, purchasing, and tracking a wide variety of IT products. Our account managers typically have 10 to 12 years of experience and are located strategically across the United States. This allows them to work directly with customers, often on site. MoreDirect does not own any inventory; we place all product orders with manufacturers and/or distribution companies for drop shipment directly to customers.

The following table sets forth the relative distribution of our net sales by business segment:

	Years Ended December 31,		
Business Segment	**2003**	**2002**	**2001**
SMB	57%	59%	76%
Public Sector	24	25	24
Large Accounts	19	16	—
Total	100%	100%	100%

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

Customers. We currently maintain an extensive database of customers and prospects aggregating approximately 3,860,000 names. During the year ended December 31, 2003, we received orders from approximately 499,000 customers. Approximately 87% of our net sales in the year ended December 31, 2003 were made to customers who had previously purchased products from us. Except for sales to the federal government, no single customer accounted for 10% or more of our consolidated revenue. We do not have backlog orders that are material to our business.

PRODUCTS AND MERCHANDISING

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

The following table sets forth our percentage of net sales (in dollars) of notebooks and personal digital assistants ("PDAs"), desktops and servers, storage devices, software, networking communications products, printers & printer supplies, video, imaging and sound, memory & system enhancements, accessories and other products during the years ended December 31, 2003, 2002, and 2001.

	PERCENTAGE OF NET SALES		
	Years Ended December 31,		
	2003	**2002**	**2001**
Notebooks & PDAs	20%	17%	24%
Desktops/Servers	15	15	12
Storage Devices	9	9	10
Software	11	14	13
Net/Com Products	8	8	9
Printers & Printer Supplies	11	12	11
Video, Imaging & Sound	12	11	11
Memory & System Enhancements	5	5	4
Accessories/Other	9	9	6
Total	100%	100%	100%

Enterprise network infrastructure products, such as PC-based servers, routers, and switches, accounted for 27.5% of our total net sales in 2003, up from 26.8% of our total net sales in 2002. Over the next few years, we anticipate that an increasing share of our revenues will come from the sale of enterprise network infrastructure products and services, including network-based storage solutions, versus the current sales concentration in desktop and portable computers.

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

PURCHASING AND VENDOR RELATIONS

For the year ended December 31, 2003, we purchased approximately 48% of our products directly from manufacturers and the balance from distributors and aggregators. We ship the majority of our products directly to our distribution facility in Wilmington, Ohio. During the years ended December 31, 2003, 2002, and 2001, product purchases from Ingram Micro, Inc., our largest vendor, accounted for approximately 22%, 28%, and 25%, respectively, of our total product purchases. Purchases from Tech Data Corporation comprised 15% of our total product purchases in the year ended December 31, 2003 and 14% of our total product purchases for the years ended December 31, 2002 and 2001. Effective May 3, 2002, Hewlett-Packard Company ("HP") completed its acquisition of Compaq Computer Corporation. Our purchases from HP constituted 15% of our total product purchases in 2003. Had this acquisition been completed at the beginning of the periods presented, our purchases made directly from HP, on a pro forma basis, would have constituted 15% and 12% of our total product purchases for the years ended December 31, 2002 and 2001, respectively. No other vendor accounted for more than 10% of our total product purchases in the years ended December 31, 2003, 2002, and 2001. We believe that alternative sources for products obtained from Ingram Micro, Tech Data, and HP are available to us.

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

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

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

DISTRIBUTION

At our approximately 205,000 square foot distribution and fulfillment complex in Wilmington, Ohio, we receive and ship inventory, configure computer systems, and process returned products. Orders are transmitted electronically from our New Hampshire, Massachusetts, and Maryland sales facilities to our Wilmington distribution center after credit approval, where packing documentation is printed automatically and order fulfillment takes place. Through our Everything Overnight® service, we guarantee that all orders accepted up until 2:00 a.m. Eastern time, (until midnight on custom-configured systems) will be shipped for overnight delivery via Airborne Express. We ship approximately 64% of our orders through Airborne Express. Upon request, orders may also be shipped by other common carriers.

We also place product orders directly with manufacturers and/or distribution companies for drop shipment by those manufacturers and/or suppliers directly to customers. MoreDirect places all product orders with manufacturers and/or distribution companies for drop shipment directly to customers. Order status with distributors is tracked online and in all circumstances, a confirmation of shipment from manufacturers and/or distribution companies is received prior to recording revenue. Products drop shipped by suppliers accounted for 38.1% of net sales in 2003 and 34.8% of net sales in 2002. In future years, we expect that products drop shipped from suppliers will increase, both in dollars and as a percentage of net sales, as we seek to lower our overall inventory and distribution costs while maintaining excellent customer service.

MANAGEMENT INFORMATION SYSTEMS

All of our subsidiaries, except for MoreDirect, use management information systems, principally comprised of applications software running on IBM AS/400 and RS6000 computers and Microsoft Windows 2000-based servers, which we have customized for our use. These systems permit centralized management of key functions, including order taking and processing, inventory and accounts receivable management, purchasing, sales, and distribution, and the preparation of daily operating control reports on key aspects of the business. We also operate advanced telecommunications equipment to support our sales and customer service operations. Key elements of the telecommunications systems are integrated with our computer systems to provide timely customer information to sales and service representatives, and to facilitate the preparation of operating and performance data.

MoreDirect has developed a custom designed Internet-based system, Traxx, which is comprised of applications software running on Linux and Sun Solaris servers. This system is an integrated application of Internet sales order processing, integrated supply chain visibility, and full EDI links with major manufacturers distribution partners for product information, availability, pricing, ordering, delivery, and tracking, including related accounting functions.

We believe that our customized information systems enable us to improve our productivity, ship customer orders on a same-day basis, respond quickly to changes in our industry, and provide high levels of customer service.

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

COMPETITION

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

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

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

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

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

INTELLECTUAL PROPERTY RIGHTS

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

EMPLOYEES

As of December 31, 2003, we employed 1,412 persons, of whom 684 were engaged in sales related activities, 142 were engaged in providing customer service and support, 298 were engaged in purchasing, marketing, and distribution related activities, 85 were engaged in the operation and development of management information systems, and 203 were engaged in administrative and accounting functions. We consider our employee relations to be good. Our employees are not represented by a labor union, and we have never experienced a work stoppage since our inception.

Item 2. Properties

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

We also lease 205,000 square feet in two facilities in Wilmington, Ohio, which houses our distribution and order fulfillment operations. The leases governing these two facilities expire in the fourth quarter of 2005 and the first quarter of 2006, respectively. We also operate telemarketing centers in Dover and Keene, New Hampshire, as well as Marlborough, Massachusetts, Rockville, Maryland, Fairfield, Connecticut, and Boca Raton, Florida. We believe that existing distribution facilities in Wilmington, Ohio will be sufficient to support our anticipated needs through the next twelve months.

Item 3. Legal Proceedings

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

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

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

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

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

On June 24, 2003, Matthew Leffert filed a class action complaint in the Superior Court of California against numerous computer-related manufacturers and resellers, including PC Connection, claiming that our listed memory specifications for MP3 players are misleading. We primarily obtain such specifications from the manufacturers, and expect to be indemnified by them, although we may be liable for some amount of damages. We may also be required to modify the way MP3 player memory specifications are set forth in our advertisements. No specific amount has been claimed as damages. PC Connection, along with the other reseller defendants, is currently in settlement discussions with Leffert.

On October 7, 2003, Commissariat A L'Energie Atomiquie filed a complaint in the Federal District Court for the District of Delaware, naming us as a defendant, along with several other computer-related resellers, in a patent infringement case. We are attempting under contract and Uniform Commercial Code ("UCC") provisions to be defended and indemnified by the manufacturers of the allegedly infringing products. We may have to expend some defense costs and we may be liable for some amount of damages. No specific amount has been claimed as damages.

On January 13, 2004, Hand Held Products, Inc., filed a third-party complaint in the Federal District Court for the District of Delaware, naming us as a third-party defendant, along with several other computer-related resellers, in a patent infringement case. Hand Held alleges that it is being sued by Symbol Technologies, Inc. for use of products purchased from us, among others, and that such products infringe the patents of Symbol. Hand Held Products has filed an Unopposed Motion to Sever and Stay Proceedings on the Third-Party Complaint, which we believe the Court will accept. Should Hand Held Products prevail in the underlying patent case, we will attempt to enforce contract and UCC provisions to be defended and indemnified by the manufacturers of the allegedly infringing products. No specific amount has been claimed as damages.

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

There were no matters submitted during the fourth quarter of 2003 to a vote of security holders.

Executive Officers of PC Connection

The executive officers of PC Connection and their ages as of March 12, 2004 are as follows:

Name	Age	Position
Patricia Gallup	49	Chairman, President, and Chief Executive Officer
Robert F. Wilkins	42	Executive Vice President
Mark A. Gavin	42	Sr. Vice President of Finance and Chief Financial Officer
Bradley G. Mousseau	52	Vice President of Human Resources

Patricia Gallup is a co-founder of PC Connection and has served as Chief Executive Officer and Chairman of the Board since September 2002. Ms. Gallup served as Chairman from June 2001 to August 2002. Ms. Gallup also assumed the role of President of PC Connection upon the resignation of its former president on March 21, 2003. Ms. Gallup has served as a member of our executive management team since its inception in 1982.

Robert F. Wilkins has served as Executive Vice President of PC Connection since January 2000. Mr. Wilkins served as Senior Vice President of Sales and Marketing from January 1999 to January 2000 and Senior Vice President of Merchandising and Product Management from January 1998 to January 1999. From December 1995 to January 1998, Mr. Wilkins served as Vice President of Merchandising and Product Management of PC Connection. From September 1994 to December 1995, he was a consultant to PC Connection and certain of its affiliates.

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

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

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information

PC Connection's Common Stock commenced trading on March 3, 1998 on the Nasdaq National Market under the symbol "PCCC." As of March 12, 2004, there were 24,997,877 shares outstanding of our Common Stock held by approximately 100 stockholders of record.

The following table sets forth for the fiscal periods indicated the range of high and low sales prices for our Common Stock on the Nasdaq National Market.

2003	High	Low
Quarter Ended:		
December 31	$11.90	$6.50
September 30	13.47	6.54
June 30	10.82	4.94
March 31	8.33	4.69
2002		
Quarter Ended:		
December 31	$ 7.49	$3.72
September 30	6.27	3.86
June 30	10.90	3.83
March 31	15.36	8.33

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

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Item 6. Selected Financial and Operating Data

The following selected financial and operating data should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in this Form 10-K.

	Years Ended December 31,				
	2003	2002	2001	2000	1999
	(dollars in thousands, except per share and selected operating data)				
Statement of Operations Data:					
Net sales	$ 1,312,891	$ 1,191,497	$ 1,186,217	$ 1,440,227	$ 1,079,348
Cost of sales	1,175,212	1,062,311	1,054,631	1,264,573	950,165
Gross profit	137,679	129,186	131,586	175,654	129,183
Selling, general and administrative expenses	124,824	121,964	117,610	123,834	91,322
Restructuring costs and other special charges[(1)]	1,929	1,636	2,204	—	—
Income from operations	10,926	5,586	11,772	51,820	37,861
Interest expense	(1,305)	(1,152)	(1,179)	(2,086)	(1,392)
Other, net	117	513	1,307	589	116
Income before income taxes	9,738	4,947	11,900	50,323	36,585
Income tax provision	(3,850)	(1,700)	(4,521)	(19,126)	(13,905)
Income before cumulative effect of change in accounting principle	5,888	3,247	7,379	31,197	22,680
Cumulative effect of change in accounting principle[(2)]	—	—	—	—	(305)
Net income	$ 5,888	$ 3,247	$ 7,379	$ 31,197	$ 22,375
Basic net income per share before cumulative effect of change in accounting principle[(3)]	$ .24	$ .13	$ .30	$ 1.30	$ .97
Cumulative effect of change in accounting principle on basic net income per share	—	—	—	—	(.02)
Basic net income per share after cumulative effect of change in accounting principle	$ .24	$ .13	$ .30	$ 1.30	$ .95
Diluted net income per share before cumulative effect of change in accounting principle[(3)]	$ .23	$ .13	$ .30	$ 1.22	$ .94
Cumulative effect of change in accounting principle on diluted net income per share	—	—	—	—	(.01)
Diluted net income per share after cumulative effect of change in accounting principle	$ .23	$ .13	$ .30	$ 1.22	$ .93
Selected Operating Data:					
Active customers[(4)]	499,000	469,000	471,000	626,000	732,000
Catalogs distributed	31,525,000	28,765,000	41,683,000	45,028,000	47,325,000
Orders entered[(5)]	1,333,000	1,243,000	1,265,000	1,521,000	1,622,000
Average order size[(5)]	$ 1,169	$ 1,119	$ 1,116	$ 1,115	$ 779

	December 31,				
	2003	2002	2001	2000	1999
	(dollars in thousands)				
Balance Sheet Data:					
Working capital	$ 96,883	$ 91,289	$ 120,442	$ 111,048	$ 71,899
Total assets	309,286	268,682	243,645	249,514	223,040
Short-term debt					
Capital lease obligations	334	200	171	153	137
Notes payable	5,614	—	1,000	1,000	1,000
Long-term debt (less current maturities):					
Capital lease obligations	6,088	6,421	6,621	6,792	6,945
Note payable	—	—	—	1,000	2,000
Total stockholders' equity	157,189	150,144	146,762	138,066	93,872

(1) Includes $407 for the cost of reductions in the Company workforce, $1,130 for an uninsured portion of an employee defalcation, and $392 for an internal review of GovConnection's General Services Administration contract cancellation during the year in 2003. Includes $886 for the cost of reductions in the Company

workforce and $750 for costs relating to the Microsoft settlement in 2002. Includes $1,510 for the cost of reductions in the Company's workforce and $694 for costs relating to a proposed acquisition that was abandoned during the year in 2001.

(2) Represents cumulative effect of change in accounting principle for the adoption of Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements."

(3) All per share data has been adjusted for a 3-for-2 stock split distributed on May 23, 2000.

(4) Represents estimates of all customers included in the Company's mailing list who have made a purchase within the last twelve month period.

(5) Does not reflect cancellations or returns.

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

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

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

OVERVIEW

PC Connection is a national direct marketing organization, offering a wide range of information technology products and services—including computer systems, software and peripheral equipment, networking communications, and other products, and accessories that we purchase from manufacturers, distributors, and other suppliers. We also offer a growing range of repair, installation, and other services performed by third-party providers. We operate through three primary business segments: (a) consumers and small- to medium-sized businesses ("SMB") through our PC Connection Sales subsidiary, (b) federal, state and local government and educational institutions ("Public Sector") through our GovConnection subsidiary, and (c) large corporate accounts ("Large Account") through our MoreDirect subsidiary.

We generate sales through (i) outbound telemarketing and field sales contacts by account managers focused on the business, education, and government markets, (ii) inbound calls from customers responding to our catalogs and other advertising media, and (iii) our Internet Web sites. We offer normal trade credit terms to our public sector and established business customers and also accept most nationally recognized credit card payments by our customers. We also facilitate lease financing by our business customers through third-party leasing organizations.

Competition

Although direct marketing represents a very small percentage of the total United States IT market, the direct marketing of personal computers and related products is highly competitive. We compete with other direct marketers, with established retail outlets, with manufacturers who regularly sell direct, and with manufacturers of personal computer products sold by us. We currently believe that direct sales by these competitors will not have a significant adverse effect upon our net sales.

Generally, pricing in the computer and related products market is very aggressive, and we strive to maintain prices at competitive levels, which may affect our gross profit margins. In addition to these general competitive pressures, our gross profit margins are influenced by a variety of other factors, including the following:

- The relative mix of SMB versus Public Sector and large corporate account sales;
- Inbound consumer sales versus corporate outbound sales within the SMB segment;
- Industry and segment pricing, particularly in the public sector; and
- Variations in product mix and introductions of new products.

Opportunities, Challenges, and Risks

The weakness in demand for information technology products experienced by us in 2001 continued through 2002 and the first half of 2003, resulting in overall conservative buying patterns, order deferrals, and longer sales cycles, as well as greater competition and slightly lower profit margins. Inbound telesales, which primarily serve our consumer and very small business customers in our SMB segment, decreased significantly, particularly in 2002, and are expected to continue to produce a declining percentage of our total sales.

With our sales representing less than 1% of the overall approximate $200 billion United States IT market, we believe we have an excellent opportunity to grow and gain a larger share of this market. We anticipate that most of this additional market share will come from smaller value-added resellers, or VARs, who have the largest share of the current IT market. We expect our expanding service offerings to compete effectively with these historical service providers.

We enjoyed a modest improvement in sales productivity (average annualized sales per sales representative) in 2003 and anticipate more significant productivity gains in the future. With additional sales training, we expect our sales personnel to generate more add-on sales, thereby increasing sales per transaction. We believe we can then leverage this productivity against our relatively fixed cost structure, thereby increasing our profitability.

Our Public Sector segment, however, faces a challenge to recover the momentum interrupted by the loss of a major government contract in late 2003. The General Services Administration (“GSA”) cancelled its contract with GovConnection, following its review of that subsidiary’s contract management system and procedures and the possibility of the sale of unqualified items and underpayment of required fees. The GSA review and our own internal review is continuing. Revenues for 2003 under the GSA contract were approximately $79 million. We applied for a new contract with that agency during the federal government’s typically low purchasing levels in the first quarter, in anticipation of receiving the contract in time to generate sales during the traditionally high third quarter federal government buying period. The GSA shortly will initiate a pre-award audit of the Company’s proposal. Although we expect the audit to begin shortly, the length of time it takes the GSA to complete this audit is not in our control. Accordingly, our 2004 sales of our GovConnection subsidiary will be adversely impacted if a new contract is not approved prior to the third quarter of 2004. This matter is further discussed below in the section entitled “Factors That May Affect Future Results and Financial Condition.”

The primary challenges we face in effectively managing our business are: (1) continuing our sales growth while reversing the downward trend of, and ultimately improving, our gross profit margins, (2) improving the productivity of our sales personnel, and (3) effectively managing and leveraging our selling, general and administrative expenses over a higher sales base. We expect that successfully meeting all of these challenges will not be easy. With only modest growth in the overall IT industry, any significant sales growth must come through increased market share. Competition is expected to be even more intense in the future, which could put more pressure on margins. We must avoid the risk of further margin deterioration while increasing sales. We believe this is possible by implementing the initiatives described above.

RESULTS OF OPERATIONS

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

	Years Ended December 31,		
	2003	2002	2001
Net sales (in millions)	$1,312.9	$1,191.5	$1,186.2
Net sales	100.0%	100.0%	100.0%
Gross profit	10.5	10.8	11.1
Selling, general and administrative expenses	9.5	10.2	9.9
Restructuring costs and other special charges	0.2	0.1	0.2
Income from operations	0.8	0.5	1.0

The continuing decrease in gross profit as a percentage of sales is the result of continuing competitive pressure on margins and on changes in product mix. The 2003 decrease in selling, general and administrative expenses as a percentage of net sales is the result of relatively fixed expenses spread over a growing sales base.

Sales Distribution

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

	Years Ended December 31,		
	2003	2002	2001
Business Segment			
SMB	57%	59%	76%
Public Sector	24	25	24
Large Account	19	16	—
Total	100%	100%	100%
Sales Channel			
Outbound Telemarketing and Field Sales	77%	78%	79%
Inbound Telesales	7	7	12
Online Internet	16	15	9
Total	100%	100%	100%
Product Mix			
Notebooks & PDAs	20%	17%	24%
Desktop/Servers	15	15	12
Storage Devices	9	9	10
Software	11	14	13
Net/Com Products	8	8	9
Printers & Printer Supplies	11	12	11
Video, Imaging & Sound	12	11	11
Memory & System Enhancements	5	5	4
Accessories/Other	9	9	6
Total	100%	100%	100%

Gross Profit Margins

The following table summarizes our overall gross profit margins, as a percentage of net sales, over the last three years:

	Years Ended December 31,		
	2003	2002	2001[(1)]
Segment			
SMB	11.2%	11.8%	
Public Sector	8.2	8.6	
Large Account	11.3	10.8	
Total	10.5%	10.8%	11.1%

(1) We had only one reportable operating segment in 2001. It is impractical for us to restate 2001 gross margin into the operating segments established in 2002.

Our SMB segment experienced competitive pricing pressures, and offered a free freight promotion during part of 2003, which contributed to its lower gross margin rate for 2003. The Education marketplace in our Public Sector segment was highly competitive in 2003, which reduced that sector's margin rate. Changes in MoreDirect's customer mix, together with increased supplier rebates, however, helped to increase our Large Account segment's margin rate for 2003.

Gross margin on sales to corporate accounts that purchase at volume discounts is generally lower than gross margins on consumer or smaller business sales. Gross margin on sales to public sector customers has historically been lower than that for commercial sales. However, the gross profit dollar contribution per order is generally higher as average order sizes of orders to such corporate and public sector accounts are usually larger. We believe that sales to larger businesses and public sector customers will continue to represent a growing portion of our business mix in future periods. We also expect the migration of customers to our website to continue, which will continue to increase the percentage of online Internet sales.

Gross margins also vary by product mix. Sales of notebooks and PDAs accounted for 20% of our overall sales in 2003, up from 17% in 2002. This accounted for much of our decrease in gross margin for the year. Computer systems generally provide the largest gross profit dollar contribution per order of all our products, although they usually yield the lowest gross margin percentage. For example, sales of computer systems result in a relatively high dollar sales order, as reflected in the increase in our average order size from $779 in the year ended December 31, 1999 to $1,169 in the year ended December 31, 2003. Enterprise class products are sold to more sophisticated end users and generally carry higher profit margins than commodity-type products. Sales of enterprise server and networking products (included in the above product mix) were 27.5%, 26.8%, and 19.8% of net sales for the years ended December 31, 2003, 2002, and 2001, respectively. We believe that sales of these product categories will grow as a percentage of our net sales, as customers further upgrade their network and communication infrastructures. However, if economic conditions do not continue to improve in the near term, the sales growth of these types of products will not likely occur as we anticipate.

Operating Expenses

The following table breaks out our more significant operating expenses for the last three years (in millions of dollars):

	Years Ended December 31,		
	2003	2002	2001
Personnel costs	$ 89.7	$ 84.1	$ 82.2
Facilities operations	9.4	10.1	10.2
Credit card fees	7.6	7.1	7.9
Depreciation and amortization	8.4	8.4	7.8
Bad debts	3.1	6.6	8.7
Other – net, including advertising	6.6	5.7	0.8
Total	$ 124.8	$ 122.0	$ 117.6
Percentage of net sales	9.5%	10.2%	9.9%

Personnel costs continue to represent the majority of our operating expenses, with sales personnel representing the largest portion of these costs. Our other operating costs, except for credit card fees and bad debts, tend to be relatively fixed over changing sales levels. Our bad debt losses have decreased significantly from their high in 2001, due to tighter credit management, lower customer bankruptcies, and an overall improvement in the economy.

Most product manufacturers provide us with co-op advertising support in exchange for product coverage in our catalogs. Although the level of co-op advertising support available to us from certain manufacturers has declined, and may decline further in the future, the overall level of co-op advertising programs has remained consistent with our levels of spending for catalog and other advertising programs. We believe that the overall levels of co-op advertising programs available over the next twelve months will be consistent with our planned advertising programs.

YEAR-OVER-YEAR COMPARISONS

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Net sales increased 10.2% to $1,312.9 million in 2003 from $1,191.5 million in 2002. The increase was due largely to the inclusion of MoreDirect for the full year in 2003 but only from its early April acquisition date in 2002. Had that acquisition taken place at the beginning of 2002, net sales would have increased in 2003 by only 5.4%.

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

	Years Ended December 31,				
	2003		2002		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$ 744.4	56.7%	$ 703.5	59.0%	5.8%
Public Sector	320.6	24.4	293.9	24.7	9.1
Large Account	247.9	18.9	194.1	16.3	27.7
Total	$ 1,312.9	100.0%	$ 1,191.5	100.0%	10.2%
Gross Profit:					
SMB	$ 83.4	11.2%	$ 82.8	11.8%	0.7%
Public Sector	26.3	8.2	25.4	8.6	3.5
Large Account	28.0	11.3	21.0	10.8	33.3
Total	$ 137.7	10.5%	$ 129.2	10.8%	6.6%

- Net sales for our SMB segment increased because we increased the number of sales account managers in the year while also improving average sales productivity per account manager. Sales representatives for the SMB segment totaled 378 at December 31, 2003, up from 341 at the end of 2002.
- Net sales for our Public Sector segment increased due primarily to a 19.2% growth in sales to state and local government units and educational organizations. Sales to the federal government increased slightly from 2002, which included first quarter sales relating to the September 11, 2001 disaster. Sales account managers for the Public Sector segment totaled 104 at December 31, 2003, up from 99 at the end of 2002. The cancellation of the General Services Administration contract described above did not have a significant impact on our 2003 sales, as most of the federal sales orders had been placed prior to the cancellation.
- The increase in 2003 net sales for our Large Account segment is due to the inclusion of this segment for only nine months in 2002. MoreDirect was acquired in early April of 2002, and accordingly, net sales for that company are included only from the date of its acquisition. Had the acquisition taken place at the beginning of 2002, net sales for this segment would have been substantially flat over the two years. Sales account managers for the Large Account segment totaled 85 at December 31, 2003, up from 72 at the end of 2002.

Gross profit increased as shown by the above table, although the corresponding gross margin percentage of net sales decreased.

- Gross profit for the SMB segment was substantially flat, as the increase from increased sales was offset by the decline in the gross margin rate, reflecting continuing competitive pressures and the shift in product mix shown in previous tables. We expect to offset this decline in gross margin rates by increasing add-on sales of accessories and other companion products to our system sales, as well as continuing to increase the level of enterprise product sales and sales of third-party warranty, installation, and other services.

- Gross profit for the Public Sector segment increased due to the increase in sales discussed above, offset by a decline in the gross margin rate. The decline in margin was attributable to aggressive sales growth promotions to state and local government and educational customers.
- Gross profit for the Large Account segment increased due to the increase in sales explained earlier, plus an increase in the gross margin rate. This growth was attributable to changes in customer mix, plus higher rebates obtained from suppliers.

Selling, general and administrative expenses increased in 2003 from 2002 but decreased as a percentage of sales in 2003 from 2002. The dollar increase is attributable to the inclusion of MoreDirect for the full year in 2003, as explained above.

We have concentrated our efforts on managing our overall operating costs. Personnel costs generally account for approximately two-thirds of our selling, general and administrative ("SG&A") expenses, as shown earlier in the table of SG&A expenses. While we plan to continue our focus on controlling discretionary expenditures, we expect that our SG&A expense may vary depending on changes in sales volume, as well as the levels of continued investments in key growth initiatives such as hiring more experienced outbound sales account managers, improving marketing programs, and deploying next generation Internet Web technology to support the sales organization.

SG&A expenses attributable to our operating segments are summarized below (dollars in millions):

	Year Ended December 31,				
	2003		2002		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
SMB	$ 82.3	11.1%	$ 82.4	11.7%	(0.1)%
Public Sector	28.5	8.9	28.9	9.8	(1.4)
Large Account	14.0	5.6	10.7	5.5	30.8
Total	$ 124.8	9.5%	$ 122.0	10.2%	2.3%

- SG&A expenses for the SMB segment remained flat in 2003 with 2002 levels, while decreasing as a percentage of net sales from 2002. This segment has a relatively fixed cost structure, and the significant decrease in its 2002 net sales resulted in an unusually high expense rate for that year. We believe that the SMB segment's expense rate is higher than that for the other two segments, primarily due to lower sales productivity of its sales force and the additional costs associated with the level of its inventory procurement, stocking, and warehousing operations. The SMB segment can support a higher sales level in future periods.
- The Public Sector segment's SG&A expenses decreased slightly in 2003 while also decreasing as a percentage of net sales from 2002. This decrease is indicative of this segment's improvement in sales productivity by the generation of more sales per account manager and greater leveraging of its fixed costs.
- SG&A expenses for the Large Account segment increased in line with the full year reporting period in 2003 and the partial year period in 2002 discussed earlier. SG&A expenses for this segment represent the lowest of the three segments as a percentage of net sales, reflecting the nature and efficiency of this segment's variable cost field sales and drop-shipping operating model.

Restructuring costs and other special charges totaled $1.9 million and $1.6 million for the years ended December 31, 2003 and 2002, respectively. A roll forward of restructuring costs and other special charges for the two years ended December 31, 2003 is shown below (in thousands of dollars). There were no changes in estimates in any of the periods presented.

	Workforce Reductions	Litigation Settlement	Employee Defalcation	GSA Review	Total
Balance December 31, 2001	$ 425	$ —	$ —	$ —	$ 425
Charges	886	750	—	—	1,636
Cash payments	(1,103)	(750)	—	—	(1,853)
Balance December 31, 2002	208	—	—	—	208
Charges	407	—	1,130	392	1,929
Cash payments	(502)	—	(1,130)	(155)	(1,787)
Balance December 31, 2003	$ 113	$ —	$ —	$ 237	$ 350

The 2003 charges for the GSA contract review represent costs of our investigations relating to the GSA's cancellation in late 2003 of its contract with our subsidiary, GovConnection. The 2003 charges for employee defalcation represent the loss sustained by one of our commercial subsidiaries in excess of the amount covered by insurance. The FBI is involved and that investigation is continuing. In 2002 we settled litigation commenced by Microsoft Corporation involving alleged trademark and copyright infringement. While denying these allegations, we recorded $0.8 million in settlement costs and legal fees related to this matter. We have also recognized $0.4 million and $0.9 million in charges related to staff reductions in 2003 and 2002, respectively.

Income from operations increased by $5.3 million, or 94.6%, to $10.9 million for the year ended December 31, 2003 from $5.6 million for the comparable period in 2002. MoreDirect, our Large Account segment, accounted for $12.9 million and $10.3 million of our income from operations in 2003 and 2002, respectively. Excluding MoreDirect, we incurred a loss from operations of $2.0 million for 2003 and $4.7 million in 2002.

Income from operations as a percentage of net sales increased from 0.5% in 2002 to 0.8% in 2003. This increase was attributable to the changes in net sales, gross margin, and SG&A expenses as discussed above.

Interest expense was $1.3 million in 2003 and $1.2 million in 2002. Interest expense increased due to slightly higher average borrowings outstanding offset by lower interest rates in 2003 as compared to 2002.

Our effective tax rate was 39.5% for 2003 and 34.4% for 2002. This year-over-year increase was due to our recognition in 2002 of a New Hampshire business enterprise tax credit. Such a tax credit was not recognized in 2003. The relative size of our tax provisions tends to magnify the beneficial impact of such credit on a percentage basis. We anticipate that our effective tax rate will be approximately 39% in 2004 due to the expected changes and mix of state income taxes.

Net income increased by $2.7 million, or 84.4%, to $5.9 million in 2003 from $3.2 million in 2002, principally as a result of the increase in income from operations. MoreDirect's net income was $7.8 million in 2003 and $6.3 million in 2002. Excluding MoreDirect, our operations incurred a net loss of $1.9 million in 2003 and $3.1 million in 2002.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net sales increased marginally to $1,191.5 million in 2002 from $1,186.2 million in 2001. The increase was due primarily to our acquisition of MoreDirect, Inc. in early April 2002, which accounted for $194.1 million of our 2002 sales. Absent that acquisition, net sales would have decreased by $188.8 million, due to the continuing weakness in demand for information technology products, especially with our SMB customers.

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

	2002		2001		
	Amount	% of Net Sales	Amount	% of Net Sales	% Change
Sales:					
SMB	$ 703.5	59.0%	$ 896.1	75.5%	(21.5)%
Public Sector	293.9	24.7	290.1	24.5	1.3
Large Account	194.1	16.3	0.0	0.0	0.0
Total	$ 1,191.5	100.0%	$ 1,186.2	100.0%	0.4%
Gross Profit:[1]					
SMB	$ 82.8	11.8%	—	—	—
Public Sector	25.4	8.6	—	—	—
Large Account	21.0	10.8	—	—	—
Total	$ 129.2	10.8%	$ 131.6	11.1%	1.8%

(1) In 2001 we had only one reportable operating segment. It is impractical for us to restate prior year balances, except for sales, into the operating segments established in 2002.

- Net sales for our SMB segment decreased in 2002, reflecting the impact of the economy on this segment. Our sales to consumers and small businesses, which make up a large portion of this segment, were negatively impacted during the continuing economic slowdown. Sales representatives for the SMB segment totaled 341 at December 31, 2002, compared to 425 at December 31, 2001.
- Net sales for our Public Sector segment remained relatively flat in 2002, as compared to 2001. The increased level of our sales to federal government agencies in the fourth quarter of 2001 after the September 11th disaster extended into the first quarter of 2002. Sales account managers for the Public Sector segment totaled 99 at December 31, 2002, compared to 88 at December 31, 2001.
- Net sales for our Large Account segment, newly established in 2002, represented our acquisition of MoreDirect. Sales account managers for the Large Account segment totaled 72 at December 31, 2002. We did not have a Large Account segment prior to 2002.

Gross profit decreased in 2002 from 2001, as shown in the above table. MoreDirect accounted for $21.0 million of our 2002 gross profit; excluding MoreDirect, the decrease in gross profit was $23.4 million, or 17.8%.

The decrease in gross profit dollars was attributable to the changes in net sales described above, together with a decrease in gross profit margin. Gross profit margin decreased due to a more competitive pricing environment and other market conditions. Our gross profit margins are influenced by, among other things, industry pricing, customer type, and relative product mix. Generally pricing in the computer and related products market is very aggressive. Sales to our SMB customers generally carry higher gross margins than our sales to Large Account or Public Sector customers.

Selling, general and administrative expenses increased in dollar amounts and as a percentage of sales. MoreDirect's selling, general and administrative expenses accounted for $10.7 million of the 2002 total, or 5.5% of its sales. Excluding MoreDirect's expenses and sales, our SG&A expenses were $111.3 million, or 11.2% of our net sales. The relatively fixed nature of our operating costs resulted in a greater decrease in sales and gross profit than in operating expenses, thereby increasing our expense ratio. Personnel costs generally account for approximately two-thirds of our SG&A expenses, as shown above. SG&A expense increased in 2002 as a percentage of sales also because we implemented additional sales growth initiatives and improved marketing programs.

Restructuring costs and other special charges totaled $1.6 million and $2.2 million for the years ended December 31, 2002 and 2001, respectively. On March 15, 2002, we settled litigation commenced by Microsoft Corporation involving alleged trademark and copyright infringement as described above. We also recognized $0.9 million in charges related to staff reductions in 2002. In 2001 we recognized $1.5 million in charges related to staff reductions and $0.7 million for costs associated with a proposed acquisition abandoned during the year.

A roll forward of restructuring costs and other special charges for the two years ended December 31, 2002 is shown below (in thousands). There were no changes in estimates in any of the periods presented.

	Workforce Reductions	Litigation Settlement	Abandoned Acquisition	Total
Balance January 1, 2001	$ —	$ —	$ —	$ —
Charges	1,510	—	694	2,204
Cash payments	(1,085)	—	(694)	(1,779)
Balance December 31, 2001	425	—	—	425
Charges	886	750	—	1,636
Cash payments	(1,103)	(750)	—	(1,853)
Balance December 31, 2002	$ 208	$ —	$ —	$ 208

Income from operations decreased by $6.2 million, or 52.5%, to $5.6 million for the year ended December 31, 2002 from $11.8 million for the comparable period in 2001. MoreDirect accounted for $10.3 million of our income from operations in 2002. Excluding MoreDirect, our income from operations decreased by $16.5 million, to a loss of $4.7 million. Income from operations as a percentage of net sales decreased from 1.0% in 2001 to 0.5% in 2002. These decreases were attributable to the changes in net sales as discussed above.

Interest expense was flat from 2001 to 2002 due to higher average borrowings outstanding offset by lower interest rates in 2002 as compared to 2001.

Our effective tax rate was 34.4% for 2002 and 38.0% for 2001. This year-over-year decrease was due to our recognition of a New Hampshire business enterprise tax credit in 2002. The relative size of our 2002 tax provision, $1.7 million, tends to magnify the beneficial impact of such credit on a percentage basis.

Net income decreased by $4.2 million, or 56.8%, to $3.2 million in 2002 from $7.4 million in 2001, principally as a result of the decrease in income from operations. MoreDirect's net income was $6.3 million in 2002. Excluding MoreDirect, our operations incurred a net loss of $3.1 million.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

Our primary sources of liquidity have historically been internally generated funds from operations and borrowings under our bank line of credit. We have used those funds to meet our capital requirements, which consist primarily of operational needs, capital expenditures for computer equipment and software used in our business, and more recently, earn-out payments required under our recent acquisition of MoreDirect.

We believe that funds generated from operations, together with available credit under our bank line of credit, will be sufficient to finance our working capital, capital expenditure, and other requirements at least for the next twelve calendar months. We expect our capital needs for 2004 to consist primarily of capital expenditures of between $3 and $4 million, payments on capital and operating lease obligations of approximately $5.3 million and additional payments of approximately $11.6 million under our MoreDirect merger agreement.

We expect to meet our cash requirements for 2004 through a combination of cash on hand, cash generated from operations and, if necessary, additional borrowings on our bank line of credit, as follows:

- *Cash on Hand*. At December 31, 2003 we had approximately $3.0 million in unrestricted accounts and $5.0 million in an account restricted to payments under the MoreDirect acquisition agreement.
- *Cash Generated by Operations*. We expect to generate cash flows from operations in excess of operating cash needs by balancing net changes in inventories, receivables, and payables to generate a positive cash flow. Historically, we have consistently generated positive cash flows from operations.
- *Credit Facilities*. As of December 31, 2003, we had drawn $5.6 million of our $45 million bank line of credit. This line of credit can be increased, at our option, to $65 million for approved acquisitions or other uses authorized by the bank. Borrowings are, however, limited by certain minimum collateral and earnings requirements, as described more fully below.

Our ability to continue funding our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. While at this time we do not anticipate needing any additional sources of financing to fund our operations, if demand for information technology products declines, our cash flows from operations may be substantially affected. See also related risks listed below under "Factors That May Affect Future Results and Financial Condition."

Summary Sources and Uses of Cash

The following table summarizes our sources and uses of cash over the last three years (in millions):

	Years Ended December 31,		
	2003	2002	2001
Net cash provided by operating activities	$ 3.3	$ 5.0	$ 34.2
Net cash used for investing activities	(8.3)	(37.6)	(5.9)
Net cash provided by (used for) financing activities	6.2	(1.2)	(0.1)
Increase (decrease) in cash and cash equivalents	$ 1.2	$ (33.8)	$ 28.2

Cash provided by operating activities decreased in 2003 and 2002. The primary reason for the decrease in 2003 was the increase in inventories, not fully offset by collections of receivables or increases in payables. The higher amount in 2001 resulted primarily from a significant decrease in receivables, inventory, and other current assets from prior levels.

At December 31, 2003, we had $112.5 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence and will be financed by cash flows from operations or short-term borrowings under the line of credit. This amount includes $6.4 million payable to two financial institutions under security agreements to facilitate the purchase of inventory. We believe we will be able to meet our obligations under our accounts payable with cash flows from operations and our existing line of credit.

Cash used for investing activities include our capital expenditures in the three years presented, primarily for computer equipment and capitalization of internally-developed software. Additionally, MoreDirect was acquired in April 2002, which accounted for $32.6 million of the use of cash in 2002. We continued to use cash in 2003 to fund earn-out payments due to the former shareholder of MoreDirect. These payments totaled $10.8 million.

Cash provided by financing activities in 2003 related to an increase in our net borrowings by $5.6 million under our bank line of credit, whereas there was no such increase in 2002 or 2001. Further, our 2002 and 2001 financing activities included a $1.0 million repayment of a note payable in each year and purchases of treasury stock aggregating $0.8 million and $1.5 million, respectively.

Debt Instruments, Contractual Agreements, and Related Covenants

Below is a summary of certain provisions of our credit facilities and other contractual obligations. It is qualified in its entirety by the terms of the actual agreements, which are on file with the Securities and Exchange Commission. For more information about the restrictive covenants in our debt instruments and inventory financing agreements, see "Factors Affecting Sources of Liquidity." For more information about our obligations, commitments, and contingencies, see our consolidated financial statements and the accompanying notes included in this annual report.

Bank Line of Credit. Our bank line of credit provides us with a borrowing capacity of up to $45 million, based on sufficient levels of trade receivables to meet borrowing base requirements, and depending on meeting minimum EBITDA (earnings before interest, taxes, depreciation, and amortization) and equity requirements, described below under "Factors Affecting Sources of Liquidity." Amounts outstanding under this facility were $5.6 million at December 31, 2003; these amounts bear interest at the prime rate (4.0% at December 31, 2003). Substantially all of our assets are collateralized as security for this facility, and all of our subsidiaries are guarantors under the line of credit. Borrowing availability under the line was $39.4 million at December 31, 2003. We recently negotiated an extension of this credit facility to December 31, 2005 and an option to increase the facility up to $65 million.

This facility operates under an automatic cash management program whereby disbursements in excess of available cash are added as borrowings at the time disbursement checks clear the bank, and available cash receipts are first applied against any outstanding borrowings and then invested in short-term qualified cash investments. Accordingly, borrowings under the line are classified as current.

Inventory Trade Credit Arrangements. We have security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. These agreements allow a collateralized first position in certain branded products inventory financed by these financial institutions. Although the agreements provide for financing up to an aggregate of $45 million, any outstanding financing must be fully secured by available inventory. We do not pay any interest or discount fees on such inventory financing; such costs are borne by the suppliers as an incentive for us to purchase their products.

Capital Lease. We have a fifteen-year lease for our corporate headquarters with an affiliated company related through common ownership. We are required to make lease payments aggregating from $0.9 million to $1.1 million per year, plus real estate taxes, insurance, and common area maintenance charges.

Operating Leases. We also lease facilities from our principal stockholders and facilities and equipment from third parties under non-cancelable operating leases. See the Liquidity Table below for lease commitments under these leases.

Earn-out Provisions of MoreDirect Merger Agreement. We completed the acquisition of MoreDirect in April 2002. Under the terms of this agreement, we are required to make additional payments to the MoreDirect shareholder if certain earnings levels are achieved through December 31, 2004. Earn-out payments aggregating $11.6 million are due in 2004 based on MoreDirect's 2003 earnings. Final payment will be due in 2005 if MoreDirect achieves its earnings target in 2004.

Liquidity Table for Contractual Obligations. The following table sets forth information with respect to our long-term obligations payable in cash as of December 31, 2003 (in thousands):

	Payments Due By Period				
	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Contractual Obligations:					
Capital lease obligation(1)	$ 10,738	$ 1,025	$ 2,050	$ 2,060	$ 5,603
Operating lease obligation	6,899	4,300	2,373	226	—
Earn-out obligation for acquisition(2)	11,593	11,593	—	—	—
Total	$ 29,230	$ 16,918	$ 4,423	$ 2,286	$ 5,603

(1) Including interest, excluding taxes, insurance, and common area maintenance charges.

(2) Excludes possible payment due in 2005, which is dependent on meeting certain 2004 earnings levels. Accordingly, the amounts ultimately due in 2005 cannot be currently estimated.

We do not have any other off-balance sheet arrangements that have or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

Factors Affecting Sources of Liquidity

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

Bank Line of Credit. Our credit facility contains certain financial ratios and operational covenants and other restrictions (including restrictions on additional debt, guarantees, dividends and other distributions, investments, and liens) with which the Company and all of its subsidiaries must comply. Any failure to comply with these covenants would not only prevent us from borrowing additional funds under this line of credit, but would also constitute a default. This credit facility contains two financial tests:

- The funded debt ratio (defined as the average outstanding advances under the line for the quarter, divided by the consolidated EBITDA for the four quarters) must not be more than 2.0 to 1.0. Our actual funded debt ratio at December 31, 2003 was 0.75 to 1.0.
- Minimum Consolidated Net Worth must be at least $125.0 million, plus 50% of consolidated net income for each quarter since December 31, 2001 (loss quarters not counted). Such amount was calculated at December 31, 2003 as $130.6 million, whereas our actual consolidated stockholders' equity at this date was $157.2 million.

The borrowing base under this facility is set at 80% of qualified commercial receivables, plus 50% of qualified government receivables, less $24 million of the formula availability which must be held in reserves. As of December 31, 2003, $39.4 million was available for additional borrowings.

Inventory Trade Credit Agreements. These agreements contain similar financial ratios and operational covenants and restrictions as those contained in our bank line of credit described above. Such agreements also contain cross-default provisions whereby a default under the bank agreement would also constitute a default under these agreements. Financing under these agreements is limited to the purchase of specific branded products from authorized suppliers, and amounts outstanding must be fully collateralized by inventories of those products on hand.

MoreDirect Merger Agreement. The merger agreement with MoreDirect contemplates an earn-out period of three years following the closing whereby if MoreDirect maintains certain earnings before income tax, or EBIT, levels, additional payments will be made to MoreDirect's shareholder. Under the merger agreement, earn-out payments are tied to EBIT levels targeted to grow at a 15% rate per year. The maximum payment we would make for 2004 under the earn-out provisions of the merger agreement is $21.7 million, assuming MoreDirect maintains 200% of the targeted EBIT level for that year. If MoreDirect maintains less than 60% of the targeted EBIT level for 2004, no payment would be required under the earn-out provisions of the merger agreement. At any time during the earn-out period, we may "buy-out" the remaining earn-out payments for amounts which vary during the term of the earn-out. We accrued a liability to MoreDirect's shareholder for $11.6 million and $10.8 million in earn-out consideration for the years ended December 31, 2003 and 2002, respectively. We also escrowed $10.0 million at closing to fund a portion of these contingent payments, of which $5.0 million was used to satisfy a portion of the liability paid by us in the first quarter of 2003, and the remaining $5.0 million will be used to satisfy a portion of our obligation to be paid in 2004. We believe we will be able to meet our obligations to MoreDirect and its stockholder under the merger agreement.

Capital Markets. Our ability to raise additional funds in the capital market depends upon, among other things, general economic conditions, the condition of the Information Technology industry, our financial performance and stock price, and the state of the capital markets.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The SEC requires that all registrants disclose their most "critical accounting policies" in "Management's Discussion of Financial Condition and Results of Operations." A "critical accounting policy" has been defined as one that is both important to the portrayal of the registrant's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Further, "critical accounting policies" are those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions.

We believe that our accounting policies described below fit the definition of "critical accounting policies." We have reviewed our policies for the year ended December 31, 2003 and determined that they remain our most critical accounting policies. We did not make any changes to these policies during this year.

Revenue Recognition

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred, and there is a reasonable assurance of collection of the sales proceeds. We generally obtain oral or written purchase authorizations from our customers for a specified amount of product at a specified price. Because we either (i) have a general practice of covering customer losses while products are in transit despite title transferring to the customer at the point of shipment or (ii) have FOB – destination specifically set out in our arrangements with federal agencies, delivery is deemed to have occurred at the point in time when the product is received by the customer. We provide our customers with a limited thirty-day right of return generally limited to defective merchandise. Revenue is recognized at delivery and a reserve for sales returns is recorded. We have demonstrated the ability to make reasonable and reliable estimates of product returns in accordance with Statement of Financial Accounting Standards No. 48 ("SFAS No. 48"), "Revenue Recognition When Right of Return Exists," based on significant historical experience. Should such returns no longer prove estimable, we believe that the impact on our financials would not necessarily be significant, since the return privilege expires 30 days after shipment.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and customers' current credit worthiness. Our allowance is generally computed by (1) applying specific percentage reserves on accounts that are past due; and (2) specifically reserving for customers known to be in financial difficulty. Therefore, if the financial condition of certain of our customers were to deteriorate, or if we noted there was a lengthening of the timing of the settlement of receivables that was symptomatic of a general deterioration in the ability of our customers to pay, we would have to increase our allowance for doubtful accounts. This would negatively impact our earnings. Our cash flows would be impacted to the extent that receivables could not be collected.

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

In 2003, we adopted the provisions of the Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor," which addresses how a reseller of a vendor's product should account for cash consideration received from a vendor. One part of this consensus spoke to the recording of estimates surrounding rebates or refunds. The other part spoke to the classification of such items on the income statement. The recognition and measurement provisions of EITF 02-16 did not have a material effect on our results of operations or financial position.

Considerable judgment is used in assessing the ultimate realization of customer receivables and vendor/supplier receivables, including reviewing the financial stability of a customer, vendor information, and gauging current market conditions. If our evaluations are incorrect, we may incur future charges to our income statement.

Inventories – Merchandise

Inventories (all finished goods) consisting of software packages, computer systems, and peripheral equipment are stated at cost (determined under the first-in, first-out method) or market, whichever is lower. Inventory quantities on hand are reviewed regularly, and provisions are made for obsolete, slow moving, and non-salable inventory, based primarily on management's forecast of customer demand for those products in inventory. The PC industry is characterized by rapid technological change and new product development that could result in increased obsolescence of inventory on hand. Increased obsolescence or decreased customer demand beyond management's expectations could require additional provisions. This could negatively impact our earnings. Our obsolescence charges have historically approximated $6 million per annum. There have been no unusual charges precipitated by specific technological or forecast issues.

Contingencies

From time to time we are subject to potential claims and assessments from third parties. We continually assess whether or not such claims have merit and would warrant accrual under the "probable and estimable" criteria of Statement of Financial Accounting Standard No. 5, "Accounting for Contingencies." In the most recent year, we have been subject to audit by the General Services Administration. While we have accrued an estimate of our anticipated liability in the financial statements, such estimate is subject to change based on incremental findings by the government auditors. Any such change in estimate will impact both our results of operations and our cash flows.

Value of Long-Lived Assets, Including Intangibles

We carry a variety of long-lived assets on our balance sheet. These are all currently classified as held for use. These include property and equipment, identifiable intangibles, and goodwill. An impairment review is undertaken on (1) an annual basis for assets such as goodwill and indefinite lived intangible assets; and (2) on an event-driven basis for all long-lived assets (including indefinite lived intangible assets and goodwill) when facts and circumstances suggest that cash flows emanating from such assets may be diminished. We may review the carrying value of all these assets based partly on our projections of anticipated cash flows – projections which are, in part, dependent upon anticipated market conditions, operational performance, and legal status. Any impairment charge that is recorded negatively impacts our earnings. Cash flows are generally not impacted.

Over the last several years, we have incurred no significant impairment charges. While we believe that our future estimates are reasonable, different assumptions regarding items such as future cash flows and the volatility inherent in markets which we serve could materially effect our valuations and result in impairment charges against the carrying value of those assets.

Employee Compensation and Benefits

Our employee compensation model has several elements that we would consider variable. These include our obligation to our employees for health care. We have selected a plan that results in our being self-insured up to certain stop-loss limits. Accordingly, we have to estimate the amount of health care claims outstanding at a given point in time. These estimates are based on historical experience and could be subject to change. Such change could negatively impact both our earnings and our cash flows.

We also have granted stock options to our employees. In general, such grants have been made at the current fair value of our stock and accordingly, given that we account for option awards under APB Opinion 25, “Accounting for Stock Issued to Employees,” no compensation charge has been recorded. In previous years, most specifically those years prior to our initial public offering, there was a difference between the strike price of the option and the then current fair value of the stock. This difference resulted in a fixed and determinable compensation charge. We have not modified option grants in a manner that would cause either re-measurement of the awards or the commencement of variable accounting.

As described in the notes to the financial statements, pro-forma disclosure has been provided as if we applied the fair value methodology to option awards. The recognition of compensation for awards – especially if we were required by the accounting standard setters to adopt such a methodology in the future – would have an adverse effect on our earnings.

We have also engaged in workforce reduction actions in each of the last three years. These actions included formula driven termination benefits. These benefits were or are being paid relatively quickly and have not been subject to change. We do not foresee a circumstance where there could be significant variability in our workforce reduction estimates. However, if we did experience significant variability, such change could negatively impact our cash flows.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In November 2003, the EITF reached a consensus on Issue No. 03-10, “Application of EITF Issue No. 02-16, ‘Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor,’ by Resellers to Sales Incentives Offered to Consumers by Manufacturers.” This pronouncement provides that consideration received by a reseller from a vendor in exchange for “vendor sales incentives” tendered by consumers should not be reported as a reduction of the cost of the reseller’s purchases from the vendor. “Vendor sales incentives” as defined, are limited to incentives meeting the narrow definition provided in the EITF. EITF 03-10 was effective for all new arrangements and modifications to existing arrangements entered into or redeemed in fiscal periods beginning after November 25, 2003. The recognition and measurement provisions of EITF 03-10 did not have a material effect on our results of operations or financial position.

INFLATION

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

FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

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

We have experienced rapid growth in recent years followed by a decline in sales in 2002 and 2001, and there is no assurance that we will be able to regain such rapid growth.

Our net sales grew from $749.9 million in 1998 to $1.44 billion in 2000. In 2001 and 2002, our net sales declined to $1.19 billion. In 2003 our net sales increased to $1.31 billion, largely due to the April 2002 acquisition of MoreDirect. We believe we would have experienced a greater decline in our net sales for 2002 if it had not been for that acquisition. If our revenues decline again in the future, we may not be able to reduce our staffing levels and operating expenses in a timely manner to avoid significant losses from operations.

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

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

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

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

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

We experienced a loss of a major federal government contract in 2003, which could significantly reduce our sales to that organization and negatively impact our business.

In November 2003 we were advised that the GSA cancelled its contract with our subsidiary, GovConnection, following a review of its contract management system and procedures that may have resulted in the sale of unqualified items or underpayment of required fees. The matter has been referred to the Department of Justice for review, and the Company is cooperating in that review. We have applied with the GSA to obtain a new contract; however, that agency will conduct a pre-award audit of our contract proposal prior to awarding a new contract. We expect this pre-award audit to begin shortly; however the commencement of the audit and the length of time to complete the audit is not in our control. Accordingly, there is no assurance that we will have a new contract in place in sufficient time to avoid a loss in federal government sales, if at all. If the new contract is not awarded prior to the traditionally high third quarter federal government buying period, our sales to the federal government would be adversely impacted. Revenues for 2003 under the GSA contract were approximately $79 million. We believe the GSA contract, if it had remained in effect, would have provided us with 2004 revenues generally comparable to the 2003 levels reported.

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

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

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

We acquire products for resale both directly from manufacturers and indirectly through distributors and other sources. The five vendors supplying the greatest amount of goods to us constituted 63%, 67%, and 63% of our total product purchases in the years ended December 31, 2003, 2002, and 2001, respectively. Among these five vendors, purchases from Ingram Micro, Inc. represented 22%, 28%, and 25% of our total product purchases in the years ended December 31, 2003, 2002, and 2001, respectively. Purchases from Tech Data Corporation comprised 15% of our total product purchases in the year ended December 31, 2003 and 14% in both of the years ended December 31, 2002 and 2001, respectively. Effective May 3, 2002, Hewlett-Packard Company (“HP”) completed its acquisition of Compaq Computer Corporation. Our purchases from HP constituted 15% of our total product purchases in 2003. Had this acquisition been completed at the beginning of the periods presented, our purchases made directly from HP, on a pro forma basis, would have constituted 15% and 12% of our total product purchases in the years ended December 31, 2002 and 2001, respectively. No other vendor supplied more than 10% of our total product purchases in the years ended December 31, 2003, 2002, and 2001. If we were unable to acquire products from Ingram, Tech Data or HP, we could experience a short-term disruption in the availability of products and such disruption could have a material adverse effect on our results of operations and cash flows.

Substantially all of our contracts and arrangements with our vendors that supply significant quantities of products are terminable by such vendors or us without notice or upon short notice. Most of our product vendors provide us with trade credit, of which the net amount outstanding at December 31, 2003 was $112.5 million. Termination, interruption, or contraction of relationships with our vendors, including a reduction in the level of trade credit provided to us, could have a material adverse effect on our financial position.

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

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

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

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

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

We face many competitive risks.

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

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

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

We face and will continue to face significant price competition.

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

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

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

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

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

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

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

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

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

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

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

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

We ship approximately 64% of our products to customers by Airborne Freight Corporation D/B/A "Airborne Express," with the remainder being shipped by United Parcel Service, Inc. and other overnight delivery and surface services. A strike or other interruption in service by these shippers could adversely affect our ability to market or deliver products to customers on a timely basis.

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

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

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

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

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

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

We presently collect sales tax on sales of products to residents in many states. Taxable sales to customers were approximately 25% of our net sales during the year ended December 31, 2003. Various states have sought to impose on direct marketers the burden of collecting state sales taxes on the sales of products shipped to their residents. In 1992, the United States Supreme Court affirmed its position that it is unconstitutional for a state to impose sales or use tax collection obligations on an out-of-state mail-order company whose only contacts with the state are limited to the distribution of catalogs and other advertising materials through the mail and the subsequent delivery of purchased goods by United States mail or by interstate common carrier. However, legislation that would expand the ability of states to impose sales tax collection obligations on direct marketers has been introduced in Congress on many occasions. Due to its presence on various forms of electronic media and other factors, our contact with many states may exceed the contact involved in the Supreme Court case. We cannot predict the level of contact that is sufficient to permit a state to impose on us a sales tax collection obligation. If the Supreme Court changes its position or if legislation is passed to overturn the Supreme Court's decision, the imposition of a sales or use tax collection obligation on us in states to which we ship products would result in additional administrative expenses to us, could result in price increases to our customers, and could reduce demand for our product.

We are dependent on key personnel.

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

We are controlled by two principal stockholders.

Patricia Gallup and David Hall, our two principal stockholders, beneficially own or control, in the aggregate, approximately 69% of the outstanding shares of our common stock. Because of their beneficial stock ownership, these stockholders can continue to elect the members of the Board of Directors and decide all matters requiring stockholder approval at a meeting or by a written consent in lieu of a meeting. Similarly, such stockholders can control decisions to adopt, amend, or repeal our charter and our bylaws, or take other actions requiring the vote or consent of our stockholders and prevent a takeover of us by one or more third parties, or sell or otherwise transfer their stock to a third party, which could deprive our stockholders of a control premium that might otherwise be realized by them in connection with an acquisition of us. Such control may result in decisions that are not in the best interest of our public stockholders. In connection with our initial public offering, the principal stockholders placed substantially all shares of common stock beneficially owned by them into a voting trust, pursuant to which they are required to agree as to the manner of voting such shares in order for the shares to be voted. Such provisions could discourage bids for our common stock at a premium as well as have a negative impact on the market price of our common stock.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

We invest cash balances in excess of operating requirements in short-term securities, generally with maturities of 90 days or less. In addition, our unsecured credit agreement provides for borrowings which bear interest at variable rates based on the prime rate. We had $5.6 million in borrowings outstanding pursuant to the credit agreement as of December 31, 2003. We believe that the effect, if any, of reasonably possible near-term changes in interest rates on our financial position, results of operations and cash flows should not be material. Our credit agreement exposes earnings to changes in short-term interest rates since interest rates on the underlying obligations are variable. However, as noted above, $5.6 million in borrowings were outstanding on the credit agreement at December 31, 2003, and the average outstanding borrowings during the year were not material. Accordingly, the change in earnings resulting from a hypothetical 10% increase or decrease in interest rates is not material.

Item 8. Consolidated Financial Statements and Supplementary Data

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

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

Not applicable.

Item 9A. Controls and Procedures

On November 14, 2003 we received final notification from the GSA that our GovConnection subsidiary's contract with the GSA was cancelled. Our management has met several times with the GSA and has concluded that such cancellation notice was precipitated by an audit of contractual compliance. We have not received an audit report or received a claim from the GSA concerning amounts that might be owed pursuant to this audit, although we have undertaken our own internal review of our government contracting processes. We believe that there were deficiencies in the process and control structure as they relate to the identification and qualification of products authorized for sale under the contract and the pricing and reporting of contract sales and payment of fees required under the GSA contract. We have taken certain remedial actions to correct such deficiencies in the fourth quarter of 2003:

- We have initiated extensive training of our government sales and support personnel on government compliance and contracting requirements.
- We have implemented system modifications allowing us to better track sales under contracts.
- We have established a comprehensive action plan to perform regular ongoing reviews of every aspect of GovConnection's operations, organization, systems, and practices.
- We have replaced the leadership of GovConnection with a new President who has extensive knowledge and experience with government purchasing and contracting.
- We have initiated plans to hire a Vice President of Contract Management of GovConnection. This individual was hired in March 2004.

We have also initiated a variety of our own preliminary internal review procedures designed to ascertain whether GovConnection conformed to the terms of the contract and have assessed whether or not our findings would call into question the propriety of our financial statements that have been filed in the past. It is management's judgment, based on a review of transactions undertaken by itself and a third-party consultant, that any issues that may be identified in the audit report would have little, if any, impact on our historical financial statements. Any financial statement exposure that is likely to exist will be prospective in nature – that is, it will arise from penalties and assessments or differences in interpretation relative to certain contractual language – and will thus be recorded in future periods.

In December 2003, we discovered a $3.1 million theft of funds by a former supervisor of one of our commercial sales subsidiaries. The FBI has been notified and investigations by that agency and our own private investigators are continuing. Our insurance carrier has been notified and we have filed a claim under our employee theft coverage for approximately $2.0 million. We have recognized a non-recurring charge in 2003 of $1.1 million for the uninsured portion of this loss.

We identified certain control weaknesses in the subsidiary's accounts payable process that allowed this theft to occur, and in December 2003 implemented the following changes in the subsidiary's internal controls to avoid a recurrence of this loss:

- We have segregated critical functions so that different employees: (1) create new suppliers, (2) process disbursement checks, and (3) reconcile vendor accounts.
- We have limited primary check signers to the subsidiary's CEO or CFO.
- We have strengthened reconciliation and review processes.

PC Connection's management, with the participation of our President and Chief Executive Officer and our Senior Vice President of Finance and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(d) under the Exchange Act) as of December 31, 2003. Based on this evaluation, and including the changes in controls described above, our President and Chief Executive Officer and our Senior Vice President of Finance and Chief Financial Officer concluded that, as of December 31, 2003, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our President and Chief Executive Officer and our Senior Vice President of Finance and Chief Financial Officer by others within these entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Except as stated above, no change to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the year ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information included under the headings, "Executive Officers of PC Connection" in Item 4 of Part I hereof and "Information Concerning Directors, Nominees, and Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Code of Business Conduct" in our definitive Proxy Statement for our 2004 Annual Meeting of Stockholders to be held on June 8, 2004 (the "Proxy Statement") is incorporated herein by reference. We anticipate filing the Proxy Statement within 120 days after December 31, 2003. With the exception of the foregoing information and other information specifically incorporated by reference into this Form 10-K, the Proxy Statement is not being filed as a part hereof.

Item 11. Executive Compensation

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

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

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

Item 13. Certain Relationships and Related Transactions

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

Item 14. Principal Accountant Fees and Services

The information included under the heading "Principal Accountant Fees and Services" in the Proxy Statement is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Consolidated Financial Statements, Schedule, and Reports on Form 8-K

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

(1) Consolidated Financial Statements

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

(2) Consolidated Financial Statement Schedule:

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

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

(3) Supplementary Data

Not applicable.

(b) Reports on Form 8-K

On October 23, 2003, the Company furnished a Current Report on Form 8-K under Item 9 (Regulation FD Disclosure), containing a copy of its earnings release for the period ended September 30, 2003, (including financial statements) pursuant to Item 12 (Results of Operations and Financial Condition).

On November 18, 2003, the Company filed a Current Report on Form 8-K under Item 5 (Other Events and Required FD Disclosure), announcing the loss of a government contract by a subsidiary, its inability to file its quarterly report on Form 10-Q for the quarter ended September 30, 2003 within the prescribed time period and its filing of a Form 12b-25 Notification of Late Filing.

On December 10, 2003, the Company filed a Current Report on Form 8-K under Item 5 (Other Events and Required FD Disclosure) and Item 7 (Financial Statements, Pro Forma Financial Information, Exhibits) providing information to be discussed at a Raymond James IT Supply Chain Conference.

(c) Exhibits

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

EXHIBIT INDEX

Exhibits	
3.2(1)	Amended and Restated Certificate of Incorporation of Registrant.
3.4(1)	Bylaws of Registrant.
4.1(1)	Form of specimen certificate for shares of Common Stock, $0.01 par value per share, of the Registrant.
9.1(1)	Form of 1998 PC Connection Voting Trust Agreement among the Registrant, Patricia Gallup individually and as a trustee, and David Hall individually and as trustee.
10.1(1)	1993 Incentive and Non-Statutory Stock Option Plan, as amended.
10.2(1)	1997 Stock Incentive Plan.
10.3(1)	Lease between the Registrant and Gallup & Hall partnership, dated June 1, 1987, as amended, for property located in Marlow, New Hampshire.
10.4(1)	Employment Agreement between the Registrant and Robert F. Wilkins, dated December 23, 1995.
10.5(1)	Lease between the Registrant and Gallup & Hall partnership, dated May 1, 1997, for property located at 442 Marlboro Street, Keene, New Hampshire.
10.6(1)	Agreement between the Registrant and Ingram Micro, Inc., dated October 30, 1997, as amended.
10.7(1)	Amended and Restated Lease between the Registrant and G&H Post, LLC, dated December 29, 1997 for property located at Route 101A, Merrimack, New Hampshire.
10.8(1)	Employment Agreement, dated as of January 1, 1998, between the Registrant and Patricia Gallup.
10.9(1)	Form of Registration Rights Agreement among the Registrant, Patricia Gallup, David Hall, and the 1998 PC Connection Voting Trust.
10.10(2)	Employment Agreement between the Registrant and Mark A. Gavin, dated February 5, 1998.
10.11(3)	Agreement for Wholesale Financing, dated as of March 25, 1998, between the Registrant and Deutsche Financial Services Corporation.
10.12(3)	Amendment to Agreement for Wholesale Financing, dated as of March 25, 1998, between the Registrant and Deutsche Financial Services Corporation.
10.13(1)	Lease between the Registrant and Gallup & Hall partnership, dated July 22, 1998, for property located at 450 Marlboro Street, Keene, New Hampshire
10.14(4)	Amendment, dated January 1, 1999, to the Lease Agreement between the Registrant and Gallup & Hall Partnership, dated June 1, 1987, as amended for property located in Marlow, New Hampshire.
10.15(2)	Amendment No. 1 to Amended and Restated Lease between the Registrant and G&H Post, LLC, dated December 29, 1998, for property located at Route 101A, Merrimack, New Hampshire.
10.16(4)	Lease between PC Connection, Inc. and The Hillsborough Group, dated January 5, 2000, for property located at 706 Route 101A, Merrimack, New Hampshire.
10.17(3)	Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between the Registrant and Deutsche Financial Services Corporation.
10.18(3)	Guaranty, dated as of February 25, 2000, entered into by PC Connection, Inc. in connection with the Amendment to Agreement for Wholesale Financing, dated as of February 25, 2000, between the Registrant and Deutsche Financial Services Corporation.
10.19(3)	Amended and Restated Credit Agreement, dated February 25, 2000, between PC Connection, Inc., the Lenders Party hereto and Citizens Bank of Massachusetts.
10.20(4)	Amendment to Employment Agreement between the Registrant and Robert F. Wilkins dated December 23, 1995.

Exhibits

10.21(4)	Lease between PC Connection Sales and Dover Mills L.P., dated May 1, 2000, for property located at 100 Main Street, Dover, New Hampshire.
10.22(4)	Amendment, dated June 26, 2000 to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated July 31, 1998 for property located at 2840 Old State Route 73, Wilmington, Ohio.
10.23(4)	Lease between ComTeq Federal, Inc. and Rockville Office/Industrial Associates dated December 14, 1993, for property located at 7503 Standish Place, Rockville, Maryland.
10.24 4)	Amendment, dated November 1, 1996 to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates for property located in Rockville, Maryland.
10.25(4)	Amendment, dated March 31, 1998 to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates, dated November 1, 1996, as amended for property located in Rockville, Maryland.
10.26(4)	Amendment, dated August 31, 2000 to the Lease Agreement between ComTeq Federal, Inc. and Rockville Industrial Associates, dated March 31, 1998, as amended for property located in Rockville, Maryland.
10.27(4)	Lease between Merrimack Services Corporation and Schleicher & Schuell, Inc., dated November 16, 2000, for property located at 10 Optical Avenue, Keene, New Hampshire.
10.28(5)	Amendment, dated December 27, 2000, to the Amended and Restated Credit Agreement, dated February 25, 2000, between PC Connection, Inc., the Lender’s Party hereto and Citizens Bank of Massachusetts.
10.29(5)	Amendment, dated May 4, 2001 to the Amended and Restated Credit Agreement, dated December 27, 2000, between PC Connection, Inc., the Lender’s Party hereto and Citizens Bank of Massachusetts.
10.30(6)	Amendment, dated August 22, 2001 to the Amended and Restated Credit Agreement, dated May 4, 2001, between PC Connection, Inc., the Lender’s Party hereto and Citizens Bank of Massachusetts.
10.31(6)	Agreement and Plan of Merger, dated March 25, 2002, by and among PC Connection, Inc., Boca Acquisition Corp., MoreDirect, Inc. and the stockholders of MoreDirect, Inc. set forth on Schedule 1 thereto.
10.32(7)	Amendment No.1 to the Agreement and Plan of Merger, dated April 5, 2002, by and among PC Connection, Inc., Boca Acquisition Corp., MoreDirect, Inc., Russell Madris, the sole stockholder of MoreDirect, Inc. and Michael Diamant, James Garrity, and Scott Madris.
10.33(8)	Amended and Restated Credit and Security Agreement, dated May 31, 2002, among Citizens Bank of Massachusetts, as lender and agent, other financial institutions party thereto from time to time, as lenders, PC Connection, Inc., as borrower, Comteq Federal of New Hampshire, Inc., GovConnection, Inc., Merrimack Services Corporation, PC Connection Sales Corporation, PC Connection Sales of Massachusetts, Inc., and MoreDirect, Inc., each as guarantors.
10.34(9)	Amendment, dated June 1, 2002, to the Lease Agreement between Merrimack Services Corporation and Gallup & Hall, dated May 1, 1997, for property located at 442 Marlboro Street, located in Keene, New Hampshire.
10.35(9)	Amendment, dated July 31, 2002 to the Lease Agreement between Merrimack Services and EWE Warehouse Investments V, LTD, dated June 26, 2000 for property located at Old State Route 73, Wilmington, Ohio.
10.36(9)	Lease between Merrimack Services Corporation and Audio Accessories, Inc., dated November 1, 2002 for property located at Mill Street, Marlow, New Hampshire.
10.37(9)	Lease between MoreDirect.com, Inc. and Bryam Hill Realty Corporation, dated April 1, 2000, for property located at 7300 N. Federal Highway, Boca Raton, FL.

Exhibits

10.38(9)	Lease between MoreDirect.com, Inc. and Bryam Hill Realty Corporation, dated February 2001, for property located at 7300 N. Federal Highway, Boca Raton, FL.
10.39(9)	Assignment of lease dated August 27, 2002, between MoreDirect, Inc. and Robert Leone Trust, for property located at 7300 N. Federal Highway, Boca Raton, FL.
10.40(9)	Amendment, dated November 20, 2002, to the Lease Agreement between GovConnection (formerly known as ComTeq Federal, Inc.) and Rockville Office/Industrial Associates, dated March 31, 1998, as amended for property located in Rockville, Maryland.
10.41(10)	Lease between GovConnection, Inc. and Fairhaven Investors Limited Partnership, dated April 30, 2003, for property located at 2150 Post Road, Fairfield, Connecticut.
10.42(11)(+)	National Account Agreement between Airborne Express, Inc. and Merrimack Services Corporation d/b/a PC Connection Services, dated June 2, 2003.
10.43	Amendment to Agreement for Wholesale Financing and Guaranty, dated as of December 18, 2001, by and among the Registrant, PC Connection Sales Corporation, Merrimack Services Corporation, and Deutsche Financial Services Corporation.
10.44	First Amendment, dated June 14, 2002 to the Amended and Restated Credit and Security Agreement, dated May 31, 2002, between PC Connection, Inc., Comteq Federal of New Hampshire, Inc., GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc., the Lender’s Party hereto and Citizens Bank of Massachusetts.
10.45	Second Amendment, dated July 29, 2002 to the Amended and Restated Credit and Security Agreement, dated May 31, 2002, between PC Connection, Inc., Comteq Federal of New Hampshire, Inc., GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc., the Lender’s Party hereto and Citizens Bank of Massachusetts.
10.46	Agreement for Inventory Financing, dated as of October 31, 2002, by and among the Registrant, Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc., and IBM Credit Corporation.
10.47	Guaranty, dated as of November 14, 2002, entered into by Registrant in connection with the Agreement for Inventory Financing, dated as of October 31, 2002, by and among the Registrant, Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc., and IBM Credit Corporation.
10.48	Guaranty, dated as of November 14, 2002, entered into by PC Connection Sales Corporation in connection with the Agreement for Inventory Financing, dated as of October 31, 2002, by and among the Registrant, Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc., and IBM Credit Corporation.
10.49	Amendment, dated April 23, 2003 to the Lease Agreement between Merrimack Services and EWE Warehouse Investments V, LTD, as amended June 19, 2001, for property located at Old State Route 73, Wilmington, Ohio.
10.50	Third Amendment, dated October 1, 2003 to the Amended and Restated Credit and Security Agreement, dated May 31, 2002, between PC Connection, Inc., Comteq Federal of New Hampshire, Inc., GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc., the Lender’s Party hereto and Citizens Bank of Massachusetts.
10.51	Acknowledgement, Waiver and Amendment to Agreement for Inventory Financing, dated as of November 25, 2003, by and among the Registrant, Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc. and IBM Credit LLC.
14.1	Code of Business Conduct.
21.1	Subsidiaries of Registrant.
23.1	Consent of Deloitte & Touche LLP.
31.1	Certification of the Company’s Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibits

31.2	Certification of the Company's Sr. Vice President of Finance and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Company's Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Company's Senior Vice President of Finance and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference from the exhibits filed with the Company's registration statement (333-41171) on Form S-1 filed under the Securities Act of 1933.
(2) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 31, 1999.
(3) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K/A Amendment No. 1, File Number 0-23827, filed on April 4, 2000.
(4) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2001.
(5) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, File Number 0-23827, filed on August 14, 2001.
(6) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on April 1, 2002.
(7) Incorporated by reference from exhibits filed with the Company's current report on Form 8-K, dated April 5, 2002.
(8) Incorporated by reference from exhibits filed with the Company's current Report on Form 8-K, dated June 5, 2002.
(9) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 31, 2003.
(10) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, File Number 0-23827, filed on August 13, 2003.
(11) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, File Number 0-23827, filed November 20, 2003.
(+) Confidential treatment requested for this agreement.

SIGNATURES

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

PC CONNECTION, INC.

Date: March 30, 2004

By: /s/ PATRICIA GALLUP

Patricia Gallup,
Chairman and Chief Executive Officer

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

Name	Title	Date
/s/ BRUCE BARONE **Bruce Barone**	Director	March 30, 2004
/s/ JOSEPH BAUTE **Joseph Baute**	Director	March 30, 2004
/s/ PETER BAXTER **Peter Baxter**	Director	March 30, 2004
/s/ DAVID BEFFA-NEGRINI **David Beffa-Negrini**	Director	March 30, 2004
/s/ PATRICIA GALLUP **Patricia Gallup**	Chairman and Chief Executive Officer	March 30, 2004
/s/ MARK GAVIN **Mark Gavin**	Senior Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2004
/s/ DAVID HALL **David Hall**	Vice Chairman and Director	March 30, 2004

PC CONNECTION, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF MANAGEMENT

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

The Company maintains an effective internal control structure. It consists, in part, of an organization with clearly defined lines of responsibility and delegation of authority, comprehensive systems and control procedures. We believe that, after the implementation of the control changes described in Item 9A, "Controls and Procedures" of our Annual Report on Form 10-K, this structure provides reasonable assurance that transactions are executed in accordance with management authorization and accounting principles generally accepted in the United States of America.

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

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

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

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of PC Connection, Inc. and subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PC Connection, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2002 the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

Deloitte & Touche LLP

Boston, Massachusetts
March 18, 2004

PC CONNECTION, INC. AND SUBSIDIARIES

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

	December 31,	
	2003	**2002**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,977	$ 1,797
Restricted cash	5,000	5,000
Accounts receivable, net	144,337	135,314
Inventories – merchandise	80,140	52,479
Deferred income taxes	1,732	741
Income taxes receivable	2,190	1,294
Prepaid expenses and other current assets	3,649	3,278
Total current assets	240,025	199,903
Property and equipment, net	20,396	25,995
Goodwill, net	45,264	33,704
Other intangibles, net	3,393	3,746
Restricted cash	—	5,000
Other assets	208	334
Total Assets	$ 309,286	$ 268,682
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	$ 334	$ 200
Note payable – bank	5,614	—
Accounts payable	112,538	85,493
Accrued expenses and other liabilities	13,063	12,121
Acquisition earn-out obligation	11,593	10,800
Total current liabilities	143,142	108,614
Capital lease obligation to affiliate, less current maturities	6,088	6,421
Deferred income taxes	2,867	3,503
Total Liabilities	152,097	118,538
Commitments and Contingencies (Note 13)		
Stockholders' Equity:		
Preferred Stock, $.01 par value, 10,000 shares authorized, none issued	—	—
Common Stock, $.01 par value, 100,000 shares authorized, 25,342 and 24,997 issued, 24,980 and 24,635 outstanding at December 31, 2003 and December 31, 2002, respectively	253	250
Additional paid-in capital	76,428	75,274
Retained earnings	82,794	76,906
Treasury stock at cost	(2,286)	(2,286)
Total Stockholders' Equity	157,189	150,144
Total Liabilities and Stockholders' Equity	$ 309,286	$ 268,682

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

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

	Years Ended December 31,		
	2003	2002	2001
Net sales	$1,312,891	$1,191,497	$1,186,217
Cost of sales	1,175,212	1,062,311	1,054,631
Gross profit	137,679	129,186	131,586
Selling, general and administrative expenses	124,824	121,964	117,610
Restructuring costs and other special charges	1,929	1,636	2,204
Income from operations	10,926	5,586	11,772
Interest expense	(1,305)	(1,152)	(1,179)
Other, net	117	513	1,307
Income before taxes	9,738	4,947	11,900
Income taxes	(3,850)	(1,700)	(4,521)
Net income	$ 5,888	$ 3,247	$ 7,379
Earnings per common share:			
Basic	$ .24	$ .13	$ .30
Diluted	$ .23	$ .13	$ .30
Shares used in computation of earnings per common share:			
Basic	24,713	24,555	24,453
Diluted	25,114	24,860	24,947

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(amounts in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance, January 1, 2001	24,416	$ 244	$ 71,542	$ 66,280	—	$ —	$ 138,066
Exercise of stock options, including income tax benefits	197	2	1,379	—	—	—	1,381
Issuance of stock under employee stock purchase plan	135	1	1,472	—	—	—	1,473
Net income and comprehensive income	—	—	—	7,379	—	—	7,379
Repurchase of common stock for Treasury	—	—	—	—	(205)	(1,537)	(1,537)
Balance, December 31, 2001	24,748	247	74,393	73,659	(205)	(1,537)	146,762
Exercise of stock options, including income tax benefits	108	1	371	—	—	—	372
Issuance of stock under employee stock purchase plan	141	2	510	—	—	—	512
Net income and comprehensive income	—	—	—	3,247	—	—	3,247
Repurchase of common stock for Treasury	—	—	—	—	(157)	(749)	(749)
Balance, December 31, 2002	24,997	250	75,274	76,906	(362)	(2,286)	150,144
Exercise of stock options, including income tax benefits	257	2	728	—	—	—	730
Issuance of stock under employee stock purchase plan	88	1	426	—	—	—	427
Net income and comprehensive income	—	—	—	5,888	—	—	5,888
Balance, December 31, 2003	25,342	$ 253	$ 76,428	$ 82,794	(362)	$ (2,286)	$ 157,189

See notes to consolidated financial statements.

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PC CONNECTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Years Ended December 31,		
	2003	2002	2001
Cash Flows from Operating Activities:			
Net income	$ 5,888	$ 3,247	$ 7,379
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,363	8,145	7,815
Deferred income taxes	(888)	1,475	(375)
Provision for doubtful accounts	2,953	7,238	10,680
(Gain)/loss on disposal of fixed assets	41	1	(174)
Changes in assets and liabilities:			
Accounts receivable	(11,976)	(6,478)	6,237
Inventories	(27,661)	5,295	11,508
Prepaid expenses and other current assets	(1,267)	83	3,621
Other non-current assets	126	(48)	139
Accounts payable	27,045	(12,808)	(10,817)
Income tax benefits from exercise of stock options	349	117	242
Accrued expenses and other liabilities	328	(1,279)	(2,082)
Net cash provided by operating activities	3,301	4,988	34,173
Cash Flows from Investing Activities:			
Purchases of property and equipment	(2,517)	(5,075)	(6,122)
Proceeds from sale of property and equipment	2	17	269
Payments for acquisition, net of cash acquired	(10,829)	(22,585)	—
Cash escrow distributed (funded) for acquisition	5,000	(10,000)	—
Net cash used for investing activities	(8,344)	(37,643)	(5,853)
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	238,259	69,836	44,955
Repayment of short-term borrowings	(232,645)	(69,836)	(44,955)
Repayment of notes payable	—	(1,000)	(1,000)
Repayment of capital lease obligation to affiliate	(199)	(171)	(153)
Exercise of stock options	381	255	1,139
Issuance of stock under employee stock purchase plan	427	512	1,473
Purchase of treasury shares	—	(749)	(1,537)
Net cash provided by (used for) financing activities	6,223	(1,153)	(78)
Increase (decrease) in cash and cash equivalents	1,180	(33,808)	28,242
Cash and cash equivalents, beginning of year	1,797	35,605	7,363
Cash and cash equivalents, end of year	$ 2,977	$ 1,797	$ 35,605
Supplemental Cash Flow Information:			
Interest paid	$ 899	$ 901	$ 1,092
Income taxes paid	6,065	1,734	2,818
Acquisition earn-out obligation	11,593	10,800	—

See notes to consolidated financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PC Connection, Inc. and subsidiaries is a direct marketer of information technology products and solutions, including brand-name personal computers and related peripherals, software, accessories, and networking products through our three primary sales subsidiaries, PC Connection Sales Corporation, GovConnection, Inc., and MoreDirect, Inc. Our primary customers are small- and medium-sized businesses, governmental agencies and educational organizations and medium-to-large corporate accounts. The following is a summary of significant accounting policies.

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

Revenue Recognition

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed and final, delivery has occurred, and there is a reasonable assurance of collection of the sales proceeds. We generally obtain oral or written purchase authorizations from our customers for a specified amount of product at a specified price. Because we either (i) have a general practice of covering customer losses while products are in-transit despite title transferring at the point of shipment or (ii) have FOB—destination specifically set out in our arrangements with federal agencies, delivery is deemed to have occurred at the point in time when the product is received by the customer.

We provide our customers with a limited thirty day right of return generally limited to defective merchandise. Revenue is recognized at delivery and a reserve for sales returns is recorded. We have demonstrated the ability to make reasonable and reliable estimates of product returns in accordance with Statement of Financial Accounting Standards ("SFAS") No. 48, "Revenue Recognition When Right of Return Exists," based on significant historical experience. Should such returns no longer prove estimable, we believe that the impact on our financials would not necessarily be significant since the return privilege expires 30 days after shipment.

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

Cash and Cash Equivalents

We consider all highly liquid short-term investments with original maturities of 90 days or less to be cash equivalents. The carrying value of our cash equivalents approximates fair value.

Restricted Cash

In connection with the acquisition of MoreDirect, Inc. (see Note 3 – Acquisitions), we established a $10,000 cash escrow to fund a portion of the contingent consideration. In the first quarter of 2003, $5,000 of these escrowed funds were used to satisfy a portion of the earn-out obligation payable by us. The remaining $5,000 will be used to satisfy a portion of our obligation to be paid in 2004.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and customer credit-worthiness. We maintain an allowance for estimated doubtful accounts based on our historical experience and the customer credit issues identified. We monitor collections regularly and adjust the allowance for doubtful accounts as necessary to recognize any changes in credit exposure.

Inventories—Merchandise

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

Advertising Costs and Revenues

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

Advertising costs charged to expense were $22,764, $19,871, and $25,847 for the years ended December 31, 2003, 2002, and 2001, respectively.

Comprehensive Income

There are no other elements of comprehensive income in the three years ended December 31, 2003 apart from net income as reported.

Business Combinations

In June 2001, we adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." The principles set forth in this standard were applied to our acquisition of MoreDirect described in Note 3 to the consolidated financial statements. Previous business combinations had been accounted for under Accounting Principles Board Opinion No. 16.

Property and Equipment

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

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

Goodwill and Other Intangible Assets

Our intangible assets consist of: (1) goodwill, which is not being amortized commencing in 2002 and beyond; (2) indefinite lived intangibles, which consist of certain trademarks that are not subject to amortization; and (3) amortizing intangibles, which consist of customer lists, which are being amortized over their useful lives. All intangible assets are subject to impairment tests on a periodic basis.

Note 2 describes the impact of accounting for the adoption of SFAS No. 142, “Goodwill and Other Intangible Assets,” and the annual impairment methodology that we will employ on January 1st of each year in calculating the recoverability of goodwill. This same impairment test will be performed at other times during the course of a year should an event occur which suggests that the recoverability of goodwill should be challenged. Non-amortizing intangibles are also subject to annual impairment tests.

Amortizing intangibles are currently evaluated for impairment using the methodology set forth in SFAS No. 144. Recoverability of these assets is assessed only when events have occurred that may give rise to an impairment. When a potential impairment has been identified, forecasted undiscounted net cash flows of the operations to which the asset relates are compared to the current carrying value of the long-lived assets present in that operation. If such cash flows are less than such carrying amounts, long-lived assets including such intangibles, are written down to their respective fair values.

Prior to 2002, we employed the impairment methodologies set forth in SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.” These methodologies did not differ substantially from SFAS No. 144 as they related to amortizing intangibles. Goodwill was also previously evaluated for impairment under SFAS No. 121 in 2001, and there were no impairments recorded in that year.

Income Taxes

Deferred income tax assets and liabilities are computed 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 anticipated tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that is more likely than not to be realized.

Concentrations

Concentrations of credit risk with respect to trade account receivables are limited due to the large number of customers comprising our customer base. Ongoing credit evaluations of customers’ financial condition are performed by management on a regular basis.

During the years ended December 31, 2003, 2002, and 2001, product purchases from Ingram Micro, Inc., our largest vendor, accounted for approximately 22%, 28%, and 25%, respectively, of our total product purchases. Purchases from Tech Data Corporation comprised 15% of our total product purchases in the year ended December 31, 2003 and 14% of our total product purchases for the years ended December 31, 2002 and 2001. Effective May 3, 2002, Hewlett-Packard Company (“HP”) completed its acquisition of Compaq Computer Corporation. Our purchases from HP constituted 15% of our total product purchases in 2003. Had this acquisition been completed at the beginning of the periods presented, our purchases made directly from HP, on a proforma basis, would have constituted 15% and 12% of our total product purchases for the years ended December 31, 2002 and 2001, respectively. No other vendor supplied more than 10% of our total product purchases in the years ended December 31, 2003, 2002, and 2001.

No single customer other than the federal government accounted for more than 3% of total net sales in 2003. Net sales to the federal government in 2003, 2002, and 2001 were $156,600, $156,400, and $164,500, or 11.9%, 13.1%, and 13.9% of total net sales, respectively.

Earnings Per Share

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

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

	2003	2002	2001
Numerator:			
Net income	$ 5,888	$ 3,247	$ 7,379
Denominator:			
Denominator for basic earnings per share	24,713	24,555	24,453
Effect of dilutive securities:			
Employee stock options	401	305	494
Denominator for diluted earnings per share	25,114	24,860	24,947
Earnings per share:			
Basic	$ .24	$ .13	$ .30
Diluted	$ .23	$ .13	$ .30

The following unexercised stock options were excluded from the computation of diluted earnings per share for years ended December 31, 2003, 2002, and 2001 because the exercise prices of the options were generally greater than the average market price of the common shares during the respective periods:

	2003	2002	2001
Anti-dilutive stock options	1,516	2,447	868

Stock-Based Compensation

Compensation expense associated with awards of stock or options to employees and directors is measured using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." The intrinsic value method requires that compensation expense, if any, be measured by the difference between the fair value of our common stock and the strike price of the option as of a measurement date. This measurement date is generally when both the number of shares and the strike price of the options are determined. Information concerning the impact of the utilization of the fair market value model prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," is shown below:

We did not record any compensation expense under the intrinsic value method in 2003, 2002, or 2001. Had we recorded compensation expense using the fair value method under SFAS No. 123, pro forma net income and diluted net income per share for the years ended December 31 would have been as follows:

	2003	2002	2001
Net income, as reported	$5,888	$3,247	$7,379
Compensation expense, net of taxes, under SFAS No. 123	1,877	1,982	2,323
Net income, under SFAS No. 123	4,011	1,265	5,056
Basic net income per share, as reported	.24	.13	.30
Basic net income per share, under SFAS No. 123	.16	.05	.21
Diluted net income per share, as reported	.23	.13	.30
Diluted net income per share, under SFAS No. 123	.16	.05	.20

The Black-Scholes model was used to value options using a volatility factor of 68.6%, 125.5%, and 98.8%, for 2003, 2002, and 2001, respectively, estimated option lives of four years, and a risk-free interest rate of 3.2% for 2003, 2.8% for 2002, and 4.0% for 2001. We believe that the assumptions used and the models applied to value the awards yield a reasonable estimate of the fair value of the grants made under the circumstances, given the alternatives under SFAS No. 123.

Share Repurchase Authorization

We announced on March 28, 2001 that our Board of Directors authorized the spending of up to $15,000 to repurchase the Company's common stock. Share purchases will be made in the open market from time to time depending on market conditions. We have repurchased an aggregate of 362,267 shares for $2,286 as of December 31, 2003, which are reflected as treasury stock on the consolidated balance sheet.

Recently Issued Financial Accounting Standards

In November 2001, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer," which addresses the income statement characterization of consideration given by a vendor to a customer and provides guidance on recognizing and measuring sales incentives. EITF Issue No. 01-09 was effective for fiscal year 2003. We have adopted the recognition and measurement criteria of EITF 01-09, and have recorded such incentives given to customers as a reduction of sales. No such incentives were offered in 2002 or 2001.

In November 2002, the EITF reached a final consensus on Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor," which addresses how a reseller of a vendor's product should account for cash consideration received from a vendor. The EITF issued guidance on the following two issues, as follows: (1) cash consideration received from a vendor should be recognized as a reduction of cost of sales in the reseller's income statement, unless the consideration is a reimbursement for selling costs or payment for assets or services delivered to the vendor, and (2) performance-driven vendor rebates or refunds (e.g., minimum purchase or sales volumes) should be recognized as a reduction of cost of sales only if the payment is considered probable, and the method of allocating such payments in the financial statements should be systematic and rational based on the reseller's progress in achieving the underlying performance targets. The provisions of EITF 02-16 were effective for our fiscal year ended December 31, 2003. The recognition and measurement provisions of EITF 02-16 did not have a material effect on our results of operations or financial position.

In November 2003, the EITF reached a consensus on Issue No. 03-10, "Application of EITF Issue No 02-16, 'Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor,' by Resellers to Sales Incentives Offered to Consumers by Manufacturers." This pronouncement provides that consideration received by a reseller from a vendor in exchange for "vendor sales incentives" tendered by consumers should not be reported as a reduction of the cost of the reseller's purchases from the vendor. "Vendor sales incentives" as defined, are limited to incentives meeting the narrow definition provided in the EITF. EITF 03-10 was effective for all new arrangements and modifications to existing arrangements entered into or redeemed in fiscal periods beginning after November 25, 2003. The recognition and measurement provisions of EITF 03-10 did not have a material effect on our results of operations or financial position.

Reclassifications

Certain amounts in the 2002 and 2001 financial statements have been reclassified to conform to the 2003 presentation.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

We adopted SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. SFAS No. 142 required, among other things, the discontinuance of the amortization of goodwill and certain other identified intangibles. It also required an initial assessment of the recoverability of the goodwill. SFAS No. 142 also includes provisions for the assessment of the value and useful lives of existing recognized intangibles (including goodwill), reclassification of certain intangibles both in and out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill and other intangibles. We perform the assessment annually on January 1st. We completed the impairment review required by SFAS No. 142 on January 1, 2003 and 2004, and determined that our goodwill and intangible assets were not impaired.

We ceased amortization of goodwill and indefinite-lived intangibles in 2002 in connection with our adoption of SFAS No. 142. The following is a reconciliation of reported net income to adjusted net income for 2003, 2002, and 2001, taking into account the cessation of goodwill amortization:

	Year Ended		
December 31,	**2003**	**2002**	**2001**
Reported net income	$5,888	$3,247	$7,379
Add back goodwill amortization (net of taxes)	—	—	457
Adjusted net income	$5,888	$3,247	$7,836
Diluted earnings per share:			
Reported net income	$ .23	$ .13	$ .30
Add back goodwill amortization (net of taxes)	—	—	.01
Adjusted net income	$ .23	$ .13	$ .31

Intangible assets not subject to amortization are as follows:

	December 31,	
	2003	**2002**
Goodwill	$ 45,264	$ 33,704
Trademarks	1,190	1,190

A rollforward of goodwill is as follows:

Balance, January 1, 2001, net	$ 9,509
Amortization expense	(702)
Balance, December 31, 2001	8,807
MoreDirect acquisition April 5, 2002	14,097
MoreDirect contingent consideration	10,800
Balance, December 31, 2002	33,704
Adjustment to MoreDirect acquisition	(33)
MoreDirect contingent consideration	11,593
Balance, December 31, 2003	$45,264

Intangible assets subject to amortization, consisting of customer lists were $2,203 and $2,556 at December 31, 2003 and 2002, respectively (net of accumulated amortization of $617 and $264, respectively). For the years ended December 31, 2003, 2002, and 2001, we recorded amortization expense of $353, $264, and $738, respectively.

The estimated amortization expense relating to customer lists for each of the five succeeding years and thereafter is as follows:

For the Year Ended December 31,	
2004	353
2005	353
2006	353
2007	353
2008	353
2009 and thereafter	438

3. ACQUISITIONS

On April 5, 2002, we completed the acquisition of MoreDirect, Inc. Under the terms of the agreement, all outstanding stock options of MoreDirect were cashed out for approximately $4,100, which was funded by us, and we paid the sole shareholder of MoreDirect approximately $18,000 in cash at closing. MoreDirect also distributed approximately $7,900 to its sole shareholder from available cash balances for previously taxed but undistributed S Corporation earnings. Acquisition costs of $600 have been included in the purchase price. In addition we paid additional cash to the MoreDirect shareholder based upon MoreDirect achieving targeted levels of annual earnings before income taxes through December 31, 2003. We accrued a liability to MoreDirect's shareholder for $11,593 in earn-out consideration for the year ended December 31, 2003. We accrued a similar liability to MoreDirect's shareholder for $10,829 with respect to the year ended December 31, 2002, which was paid in 2003. We also escrowed $10,000 in cash at closing to fund a portion of these contingent payments, of which $5,000 was used to satisfy a portion of the liability paid by us in the first quarter of 2003. The remaining $5,000 will be used to satisfy a portion of the liability at December 31, 2003. See Note 13 – "Commitments and Contingencies" for further contingent payments under the agreement.

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

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of the acquisition. The fair values of certain intangible assets were determined by management through a third party valuation.

At April 5, 2002	
Current assets	$29,675
Property, plant and equipment and other assets	1,587
Intangible assets	4,010
Goodwill	14,097
Total acquired	49,369
Less current liabilities	26,669
Net assets acquired	22,700
Less cash acquired	115
Purchase price for acquisition, net of cash acquired	$22,585

Of the $4,010 of acquired intangible assets, $1,190 was assigned to registered trademarks that are not subject to amortization. The remaining $2,820 of acquired intangible assets represents customer relationships (8 year weighted-average useful life).

The $14,097 of goodwill was assigned to the Large Corporate Accounts segment. All of this goodwill is expected to be deductible for tax purposes as a result of this acquisition. Additional goodwill of $11,593 and $10,800 was added in 2003 and 2002, respectively, relating to the payment of contingent consideration.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	December 31,	
	2003	2002
Trade	$ 138,653	$ 131,024
Co-op advertising	4,331	4,111
Vendor returns, rebates and other	7,002	6,788
Total	149,986	141,923
Less allowances for:		
Sales returns	1,520	1,467
Doubtful accounts	4,129	5,142
Accounts receivable, net	$ 144,337	$ 135,314

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	2003	2002
Facilities under capital lease	$ 7,215	$ 7,215
Leasehold improvements	5,912	5,799
Furniture and equipment	27,114	28,595
Computer software, including licenses and internally-developed software	28,055	26,730
Automobiles	157	140
Total	68,453	68,479
Less accumulated depreciation and amortization	48,057	42,484
Property and equipment, net	$20,396	$25,995

6. RESTRUCTURING COSTS AND OTHER SPECIAL CHARGES

In 2003, we recorded a charge of $407 related to staff reductions, a charge of $392 related to the General Services Administration (GSA) contract cancellation, and a charge of $1,130 related to the uninsured portion of an employee defalcation.

On March 15, 2002, we announced that we had settled litigation commenced by Microsoft Corporation involving alleged trademark and copyright infringement. While denying the allegations, we recorded a $750 charge in settlement costs and legal fees related to this matter. In 2002, we reduced our staff by approximately 24 individuals, or less than 2% of our workforce. We recorded a charge of $886 related to these staff reductions. This staff reduction was completed in September 2002.

In 2001, we recorded charges of $1,510 related to staff reductions and $694 associated with a proposed acquisition abandoned during the year.

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A rollforward of restructuring costs and other special charges for the three years in the period ended December 31, 2003 is shown below. There were no changes in estimates in the interim periods.

	Workforce Reduction	Litigation Settlement	Abandoned Acquisition	GSA Review	Employee Defalcation	Total
Balance January 1, 2001	$ —	$ —	$ —	$ —	$ —	$ —
Charges	1,510	—	694	—	—	2,204
Cash Payments	(1,085)	—	(694)	—	—	(1,779)
Balance December 31, 2001	425	—	—	—	—	425
Charges	886	750	—	—	—	1,636
Cash Payments	(1,103)	(750)	—	—	—	(1,853)
Balance December 31, 2002	208	—	—	—	—	208
Charges	407	—	—	392	1,130	1,929
Cash Payments	(502)	—	—	(155)	(1,130)	(1,787)
Balance December 31, 2003	$ 113	$ —	$ —	$ 237	$ —	$ 350

Liabilities at December 31, 2003, 2002, and 2001 are included in accrued expenses and other liabilities on the balance sheet.

7. BANK BORROWINGS

We have a $45,000 credit facility secured by substantially all of our business assets. This facility was amended as of October 1, 2003 to give us the option of increasing the borrowing by up to $20,000. Amounts outstanding under this facility bear interest at the prime rate (4.0% at December 31, 2003). The credit facility includes various customary financial and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and restrictions on the payment of dividends, and default acceleration provisions, none of which we believe significantly restricts our operations. The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0; our actual funded debt ratio at December 31, 2003 was only 0.75 to 1.0. Funded debt ratio is the ratio of average outstanding advances under the facility to EBITDA (Earnings Before Interest Expense, Taxes, Depreciation and Amortization). Borrowing availability under the agreement was $39,400 at December 31, 2003.

Borrowings of $5,600 were outstanding under this credit facility at December 31, 2003. The credit facility matures on December 31, 2005, at which time amounts outstanding become due.

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

Year ended December 31,	Weighted Average Interest Rate	Maximum Amount Outstanding	Average Amount Outstanding
2003	4.1%	$ 27,623	$ 5,452
2002	4.1	10,408	1,038
2001	5.9	6,267	197

8. TRADE CREDIT ARRANGEMENTS

At December 31, 2003 and 2002, we had security agreements with two financial institutions to facilitate the purchase of inventory from various suppliers under certain terms and conditions. The agreements allow a collateralized position in inventory financed by the financial institutions up to an aggregated amount of $45,000. The cost of such financing under these agreements is borne by the suppliers by discounting their invoices to the financial institutions as an incentive for us to purchase their products. We do not pay any interest or discount fees on such inventory financing. At December 31, 2003 and 2002, accounts payable included $6,397 and $3,559, respectively, owed to these financial institutions.

9. CAPITAL LEASE

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

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

The net book value of capital lease assets was $4,770 and $5,251 as of December 31, 2003 and 2002, respectively.

Future aggregate minimum annual lease payments under this lease at December 31, 2003 are as follows:

Year Ending December 31	Payments
2004	$ 1,025
2005	1,025
2006	1,025
2007	1,025
2008	1,035
2009 and thereafter	5,603
Total minimum payments (excluding taxes, maintenance, and insurance)	10,738
Less amount representing interest	4,316
Present value of minimum lease payments	6,422
Less current maturities (excluding interest)	334
Long-term portion	$ 6,088

10. STOCKHOLDERS' EQUITY

Preferred Stock

Our Amended and Restated Certificate of Incorporation (the "Restated Certificate") authorized the issuance of up to 10,000,000 shares of preferred stock, $.01 par value per share (the "Preferred Stock"). Under the terms of the Restated Certificate, the Board is authorized, subject to any limitations prescribed by law, without stockholder approval, to issue by a unanimous vote such shares of Preferred Stock in one or more series. Each such series of Preferred Stock shall have such rights, preferences, privileges, and restrictions, including voting rights, dividend rights, redemption privileges, and liquidation preferences, as shall be determined by the Board. There were no preferred shares outstanding at 2003 and 2002.

Incentive and Non-Statutory Stock Option Plans

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

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

Information regarding the 1993 and 1997 Plans is as follows:

	Option Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding January 1, 2001	2,649,508	13.61	
Granted	776,367	13.01	9.14
Exercised	(197,134)	5.78	
Forfeited	(334,929)	18.53	
Outstanding December 31, 2001	2,893,812	13.40	
Granted	485,300	6.63	5.36
Exercised	(108,421)	5.52	
Forfeited	(721,115)	14.42	
Outstanding December 31, 2002	2,549,576	12.29	
Granted	1,070,000	6.74	3.63
Exercised	(257,354)	8.59	
Forfeited	(634,836)	13.56	
Outstanding, December 31, 2003	2,727,386	10.78	

The following table summarizes the status of outstanding stock options as of December 31, 2003:

	Options Outstanding			Options Exercisable	
Exercise Price Range	No. of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	No. of Shares	Weighted Average Exercise Price
$.51	36,059	1.39	$ .51	36,059	$ .51
$3.81—$6.80	778,028	8.44	5.21	156,212	4.59
$7.10—$9.98	800,172	6.90	7.91	172,797	8.96
$10.01—$14.35	764,101	5.90	11.21	575,750	11.49
$15.25—$34.83	239,251	6.16	19.79	181,263	19.80
$51.81	93,275	6.54	51.81	70,024	51.81
$52.75	16,500	6.63	52.75	12,375	52.75
$.51—$52.75	2,727,386	6.91	$ 10.78	1,204,480	$ 13.92

Total exercisable options and their weighted average exercise price at December 31, 2002 and 2001 were 1,267,346 shares at $11.62 and 1,410,053 shares at $9.97, respectively.

1997 Employee Stock Purchase Plan

In November 1997, the Board adopted and the stockholders approved the 1997 Employee Stock Purchase Plan (the “Purchase Plan”), which became effective on February 1, 1999. The Purchase Plan authorizes the issuance of Common Stock to participating employees. Under the terms of the Purchase Plan, the purchase price is an amount equal to 85% of the fair market value per share of the Common Stock on either the first day or the last day of the offering period, whichever is lower. An aggregate of 637,500 shares of Common Stock has been reserved for issuance under the Purchase Plan, of which 508,296 shares were purchased.

11. INCOME TAXES

The 2003, 2002, and 2001 provision for income taxes consisted of the following:

	Years Ended December 31,		
	2003	2002	2001
Paid or currently payable:			
Federal	$4,108	$ (142)	$4,510
State	630	367	386
Total current	4,738	225	4,896
Deferred:			
Federal	(697)	1,567	(345)
State	(191)	(92)	(30)
Net deferred	(888)	1,475	(375)
Net provision	$3,850	$1,700	$4,521

The components of the deferred taxes at December 31, 2003 and 2002 are as follows:

	2003	2002
Current:		
Provisions for doubtful accounts	$ 1,374	$ 1,256
Inventory costs capitalized for tax purposes	317	160
Inventory and sales returns reserves	699	463
Deductible expenses, primarily employee-benefit related	4	75
Other	(662)	(1,213)
Net deferred tax asset - current	1,732	741
Non-Current:		
Compensation under non-statutory stock option agreements	53	339
State tax credit carryforward	600	600
Excess of book value over the tax basis of goodwill and other intangibles	(1,389)	(462)
Excess of book value over the tax basis of property and equipment	(2,131)	(3,980)
Net deferred tax liability—non-current	(2,867)	(3,503)
Net deferred tax liability	$(1,135)	$(2,762)

The reconciliation of the Company’s 2003, 2002, and 2001 income tax provision to the statutory federal tax rate is as follows:

	2003	2002	2001
Statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	4.5	4.8	3.0
State tax credits carried forward, net of federal tax	—	(5.9)	—
Nondeductible expenses	0.1	0.2	0.1
Other—net	(0.1)	0.2	(0.1)
Effective income tax rate	39.5%	34.3%	38.0%

State tax credit carryforwards are offsettable against future state income taxes and expire as follows:

2006	$150
2007	450
	$600

12. EMPLOYEE BENEFIT PLAN

We have a contributory profit-sharing and employee savings plan covering all qualified employees. No contributions to the profit-sharing element of the plan were made by us in 2003, 2002, or 2001. We made matching contributions to the employee savings element of the plan of $602, $614, and $513 in 2003, 2002, and 2001, respectively.

13. COMMITMENTS AND CONTINGENCIES

Operating Leases

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

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

Future aggregate minimum annual lease payments under these leases at December 31, 2003 are as follows:

Year Ending December 31	Related Parties	Others	Total
2004	$ 147	$4,153	$4,300
2005	147	1,896	2,043
2006	147	183	330
2007	144	—	144
2008	82	—	82
2009 and thereafter	—	—	—

Total rent expense aggregated $4,952, $5,732, and $5,656 for the years ended December 31, 2003, 2002, and 2001, respectively, under the terms of the leases described above. Such amounts included $147, $173, and $179 in 2003, 2002, and 2001, respectively, paid to related parties.

Contingencies

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

We are also subject to audit by various government agencies relating to sales under certain government contracts. An audit has been conducted on our GSA contract for the period May 1, 1997 to March 31, 2002. On October 16, 2003 we received notice from the GSA that the GSA's contract with our subsidiary, GovConnection, was to be cancelled in thirty days. We met with representatives of the GSA to discuss a stay or rescission of the cancellation notice. We were notified on November 14, 2003 that the cancellation notice could not be rescinded or stayed. As a result of such meetings, management has concluded that such cancellation was precipitated by an audit of contractual compliance. We have not received an audit report or received a claim from the GSA concerning amounts that might be owed pursuant to this audit.

Based on our own internal review of contractual compliance, we have noted that several internal control deficiencies have existed at GovConnection surrounding its compliance with the GSA contract. Actions have been taken to address these deficiencies. We believe that we have provided adequate reserves to cover any claims as they relate to payment of fees required under the contract or any penalties assessed. We have reserved $1.0 million for such fees or any penalties assessed. However, we will continue to evaluate such reserves in light of additional information that comes to our attention.

We have been informally advised that audit matters related to GovConnection have been referred to the Department of Justice for its review. Such a referral exposes us to possible civil damages for non-compliance with the GSA contract. Such damages can be substantial. No reserves have been provided for such a claim because of the preliminary nature of this matter. We will continue to evaluate our reserves – as they relate both to the GSA audit and the Department of Justice investigation – in light of additional information that comes to our attention. The ultimate outcome of these matters cannot be determined. Future events may result in conclusions that could have a material impact, either positively or negatively, on our results of operations or financial condition. We have no indication of intentional wrongdoing by GovConnection regarding the GSA contract. In order to assist in this evaluation, we have engaged outside counsel and an independent accounting firm to undertake a review of the Company's systems, policies, and procedures relative to its Federal, State, and Local Government contracts.

As discussed in Note 3 – "Acquisitions," we completed the acquisition of MoreDirect in 2002. Under the terms of the agreement, we will pay additional cash to the MoreDirect shareholder based upon MoreDirect achieving targeted levels of annual earnings before income taxes through December 31, 2004. Under the merger agreement, earn-out payments are tied to earnings before income tax ("EBIT") levels targeted to grow at a 15% rate per year. The maximum payment we would make for 2004 under the earn-out provisions of the merger agreement is $21,749, assuming MoreDirect maintains 200% of targeted EBIT level for that year. If MoreDirect maintains less than 60% of the targeted EBIT level for 2004, no payment would be required under the earn-out provision of the merger agreement. At any time during the earn-out period, we may "buy-out" the remaining earn-out payments for amounts which vary during the term of the earn-out. Certain portions of the contingent payments may be paid in our common stock at specified values of between $20.90 and $40.00 per share. None of the contingent payments have been in stock as of December 31, 2003.

14. OTHER RELATED PARTY TRANSACTIONS

As described in Notes 9 and 13, we have leased certain facilities from related parties. Other related-party transactions include the transactions summarized below. Related parties consist primarily of affiliated companies related to us through common ownership.

	Years Ended December 31		
	2003	2002	2001
Revenue:			
Sales of various products	$ 1	$ 3	$ 3
Sales of services to affiliated companies	64	132	148
Costs:			
Purchase of services from affiliated companies	0	1	1

15. SEGMENT AND RELATED DISCLOSURES

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

In January 2002 we reorganized our operations to create two reportable operating segments — the "Public Sector" segment, which serves federal, state, and local governmental organizations and educational institutions,

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

Segment information applicable to our reportable operating segments for the years ended December 31, 2003 and 2002 is shown below:

	Year Ended December 31, 2003				
	SMB Segment	**Public Sector Segment**	**Large Acct. Segment**	**Eliminations**	**Consolidated**
Sales to external customers	$744,396	$ 320,622	$247,873	$ —	$1,312,891
Transfers between segments	245,466	—	—	(245,466)	—
Net sales	$989,862	$ 320,622	$247,873	$(245,466)	$1,312,891
Operating income (loss) before allocations	$ 49,151	$ 9,840	$ 14,270	$ (62,335)	$ 10,926
Allocations	48,511	12,427	1,397	(62,335)	—
Operating income (loss)	640	(2,587)	12,873	—	10,926
Interest and other — net	(1,002)	(202)	16	—	(1,188)
Income (loss) before taxes	$ (362)	$ (2,789)	$ 12,889	$ —	$ 9,738
Total assets	$201,749	$ 92,951	$ 96,237	$ (81,651)	$ 309,286
Goodwill, net	$ 1,173	$ 7,634	$ 36,457	$ —	$ 45,264

	Year Ended December 31, 2002				
	SMB Segment	**Public Sector Segment**	**Large Acct. Segment**	**Eliminations**	**Consolidated**
Sales to external customers	$703,505	$ 293,938	$194,054	$ —	$1,191,497
Transfers between segments	203,199	—	—	(203,199)	—
Net sales	$906,704	$ 293,938	$194,054	$(203,199)	$1,191,497
Operating income (loss) before allocations	$ 42,360	$ 8,867	$ 10,816	$ (56,457)	$ 5,586
Allocations	43,445	12,486	526	(56,457)	—
Operating income (loss)	(1,085)	(3,619)	10,290	$ —	5,586
Interest and other — net	(696)	24	33	—	(639)
Income (loss) before taxes	$ (1,781)	$ (3,595)	$ 10,323	$ —	$ 4,947
Total assets	$187,161	$ 83,389	$ 76,144	$ (78,012)	$ 268,682
Goodwill, net	$ 1,173	$ 7,634	$ 24,897	$ —	$ 33,704

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

In 2001 we had only one reportable operating segment. It is impractical for us to restate prior year balances, except for sales, into the operating segments established in 2002.

Senior management also monitors revenue by sales channel (Outbound Telemarketing and Field Sales, Inbound Telesales, and Online Internet) and product mix (Notebooks & PDAs, Desktops and Servers, Storage

Devices, Software, Net/Com Products, Printers & Printer Supplies, Video, Imaging & Sound, Memory & System Enhancements, and Accessories/Other).

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

	Years Ended December 31,		
	2003	2002	2001
Segment (excludes transfers between segments)			
SMB	$ 744,396	$ 703,505	$ 896,164
Public Sector	320,622	293,938	290,053
Large Accounts	247,873	194,054	—
Total	$ 1,312,891	$ 1,191,497	$ 1,186,217
Sales Channel			
Outbound Telemarketing and Field Sales	$ 1,007,758	$ 922,694	$ 942,735
Inbound Telesales	93,056	87,085	140,463
Online Internet	212,077	181,718	103,019
Total	$ 1,312,891	$ 1,191,497	$ 1,186,217
Product Mix			
Notebooks & PDAs	$ 261,540	$ 202,065	$ 279,608
Desktop/Servers	193,560	173,833	146,387
Storage Devices	116,785	112,056	115,030
Software	144,843	162,640	158,896
Net/Com Products	103,995	98,243	106,002
Printers & Printer Supplies	149,302	141,317	124,802
Video, Imaging & Sound	154,268	131,192	126,269
Memory & System Enhancements	75,109	65,708	51,748
Accessories/Other	113,489	104,443	77,475
Total	$ 1,312,891	$ 1,191,497	$ 1,186,217

Included in the product mix sales are enterprise networking product sales of $360,000, $320,000, and $235,000 for the years ended December 2003, 2002, and 2001, respectively.

Substantially, all of our net sales in 2003, 2002, and 2001 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 2% in 2003, 2002, and 2001. All of our assets at December 31, 2003 and 2002 were located in the United States. Our primary target customers are small- to medium-sized businesses ("SMBs") comprised of 20 to 1,000 employees, federal, state, and local governmental agencies, educational institutions, and medium-to-large corporate accounts. No single customer other than the federal government accounted for more than 3% of total net sales in 2003. Net sales to the federal government in 2003, 2002, and 2001 were $156,600, $156,400, and $164,500, or 11.9%, 13.1%, and 13.9% of total net sales, respectively.

16. SELECTED UNAUDITED QUARTERLY FINANCIAL RESULTS

The following table sets forth certain unaudited quarterly data of the Company for each of the quarters since January 2002. This information has been prepared on the same basis as the annual financial statements and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the selected quarterly information when read in conjunction with the annual financial statements and the notes thereto included elsewhere in this document. The quarterly operating results are not necessarily indicative of future results of operations. See "Factors That May Affect Future Results and Financial Condition—Historical Net Losses; Variability of Quarterly Results."

	Quarters Ended			
	March 31, 2003	June 30, 2003	Sept. 30, 2003	Dec. 31, 2003
Net sales	$ 283,527	$ 321,568	$ 349,420	$ 358,376
Cost of sales	251,052	288,611	313,494	322,055
Gross profit	32,475	32,957	35,926	36,321
Selling, general and administrative expenses	29,639	30,018	32,059	33,108
Restructuring costs and other special charges	—	397	—	1,532
Income from operations	2,836	2,542	3,867	1,681
Interest expense	(303)	(276)	(270)	(456)
Other, net	44	54	27	(8)
Income before income taxes	2,577	2,320	3,624	1,217
Income tax provision	(1,002)	(917)	(1,444)	(487)
Net income	$ 1,575	$ 1,403	$ 2,180	$ 730
Weighted average common shares outstanding:				
Basic	24,651	24,665	24,741	24,792
Diluted	24,920	25,013	25,322	25,308
Earnings per common share:				
Basic	$ .06	$ .06	$ .09	$ .03
Diluted	$ .06	$ .06	$ .09	$ .03

	Quarters Ended			
	March 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002
Net sales	$ 237,120	$ 291,188	$ 341,039	$ 322,150
Cost of sales	212,170	259,864	303,869	286,408
Gross profit	24,950	31,324	37,170	35,742
Selling, general and administrative expenses	27,478	30,609	32,625	31,252
Restructuring costs and other special charges	813	105	718	—
Income (loss) from operations	(3,341)	610	3,827	4,490
Interest expense	(242)	(296)	(297)	(317)
Other, net	195	132	94	92
Income (loss) before income taxes	(3,388)	446	3,624	4,265
Income tax (provision) credit	1,288	(169)	(1,418)	(1,401)
Net income (loss)	$ (2,100)	$ 277	$ 2,206	$ 2,864
Weighted average common shares outstanding:				
Basic	24,551	24,553	24,533	24,583
Diluted	24,551	24,833	24,789	24,850
Earnings (loss) per common share:				
Basic	$ (.09)	$ .01	$ .09	$ .12
Diluted	$ (.09)	$ .01	$ .09	$ .12

PC CONNECTION, INC. AND SUBSIDIARIES

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(amounts in thousands)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions–Write-Offs	Other	Balance at End of Period
Allowance for Sales Returns					
Year Ended December 31, 2001	$ 3,592	$ 52,969	$ (54,816)	—	1,745
Year Ended December 31, 2002	1,745	34,722	(35,459)	459(2)	1,467
Year Ended December 31, 2003	1,467	34,174	(34,121)	—	1,520
Allowance for Doubtful Accounts					
Year Ended December 31, 2001	5,536	10,680(1)	(8,784)	—	7,432
Year Ended December 31, 2002	7,432	7,238(1)	(10,525)	997(2)	5,142
Year Ended December 31, 2003	5,142	2,953	(3,966)	—	4,129
Inventory Valuation Reserve					
Year Ended December 31, 2001	1,700	5,808	(6,308)	—	1,200
Year Ended December 31, 2002	1,200	4,877	(4,827)	20(2)	1,270
Year Ended December 31, 2003	1,270	5,889	(5,699)	—	1,460

(1) Additions to the provision for doubtful accounts include charges to advertising and cost of sales aggregating $(104), $665, and $1,981 for the years ended December 31, 2003, 2002, and 2001, respectively. Such allowances relate to receivables under cooperative arrangements with vendors.

(2) Acquisition of MoreDirect subsidiary on April 5, 2002.

AMENDMENT TO AGREEMENT FOR WHOLESALE FINANCING AND GUARANTY

THIS AMENDMENT TO AGREEMENT FOR WHOLESALE FINANCING AND GUARANTY ("Amendment") is entered into by and among **PC Connection Sales Corporation** (f/k/a PC Connection Sales Corp. and PC Connection, Inc.) ("Sales"), **Merrimack Services Corporation** ("Merrimack"), **PC Connection, Inc.** ("Guarantor") and **Deutsche Financial Services Corporation** ("DFS").

RECITALS

WHEREAS, Sales, Merrimack and DFS are parties to that certain Agreement for Wholesale Financing dated as of March 25, 1998 (as amended, the "AWF"). Capitalized terms shall have the same meaning as defined in the AWF unless otherwise indicated.

WHEREAS, Guarantor executed that certain Guaranty in favor of DFS as of February 25, 2000 (as amended, the "Guaranty") pursuant to which Guarantor agreed to guaranty the Liabilities (as defined in the Guaranty) of Dealer.

NOW THEREFORE, FOR VALUE RECEIVED, the parties hereto hereby agree as follows:

1. DFS and Sales, Merrimack and Guaranty hereby agree that all of the terms of Section 2 of that certain Amendment to Agreement for wholesale Financing dated November 5, 1999, are hereby deleted in their entirety and restated to read as follows:

"7.1 Financial Covenants. Dealer will:

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

Fiscal Quarter(s) Ending	Required Net Worth on Quarter-end Date
6/30/01	$ 96,000,000
9/30/01	$ 96,000,000
12/31/01 and each fiscal quarter thereafter	$ 120,000,000

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

Fiscal Quarter(s) Ending	Required Net Income for Previous Four Quarters on Quarter-end Date
6/30/01	$ 19,000,000
9/30/01	$ 7,000,000
12/31/01 and each fiscal quarter thereafter	$ 5,000,000

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

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

IN WITNESS WHEREOF, Guarantor, Sales, Merrimack and DFS have each read this Amendment, understand all the terms and provisions hereof and agree to be bound thereby and subject thereto as of the 18th day of December, 2001.

PC CONNECTION SALES CORPORATION

Attest:

/s/ Steven Markiewicz

Steven Markiewicz, Secretary

By: /s/ Robert Gregerson

Print Name: Robert Gregerson
Title: President

MERRIMACK SERVICES CORPORATION

Attest:

/s/ Steven Markiewicz

Steven Markiewicz, Secretary

By: /s/ Jack Ferguson

Print Name: Jack Ferguson
Title: Treasurer

PC CONNECTION, INC.

Attest:

/s/ Steven Markiewicz

Steven Markiewicz, Secretary

By: /s/ Jack Ferguson

Print Name: Jack Ferguson
Title: Treasurer

DEUTSCHE FINANCIAL SERVICES CORPORATION

By: /s/ David Lynch

Print Name: David Lynch
Title: VP of Ops

EXHIBIT 10.44

FIRST AMENDMENT TO
AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT

Dated as of June 14, 2002

AMONG

CITIZENS BANK OF MASSACHUSETTS
(AS LENDER AND AS AGENT)

AND

THE FINANCIAL INSTITUTIONS PARTY HERETO
FROM TIME TO TIME
(AS LENDERS)

WITH

PC CONNECTION, INC.
(AS BORROWER)

AND

COMTEQ FEDERAL OF NEW HAMPSHIRE, INC.
GOVCONNECTION, INC.
MERRIMACK SERVICES CORPORATION
PC CONNECTION SALES CORPORATION
PC CONNECTION SALES OF MASSACHUSETTS, INC.
MOREDIRECT, INC.
(AS GUARANTORS)

FIRST AMENDMENT TO
AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT

This FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT is entered into as of June 14, 2002 by and among PC CONNECTION, INC., a Delaware corporation (the "Borrower"), as borrower, COMTEQ FEDERAL OF NEW HAMPSHIRE, INC., a Delaware corporation, GOVCONNECTION, INC., a Maryland corporation, MERRIMACK SERVICES CORPORATION, a Delaware corporation, PC CONNECTION SALES CORPORATION, a Delaware corporation, PC CONNECTION SALES OF MASSACHUSETTS, INC., a Delaware corporation and MOREDIRECT, INC., a Florida corporation (together, the "Guarantors" and each, a "Guarantor"), as guarantors, CITIZENS BANK OF MASSACHUSETTS (the "Agent"), as agent and the lenders' party thereto (the "Lenders"), as lenders.

Recitals

The Borrower, the Lenders, the Guarantors and the Agent are parties to an Amended and Restated Credit and Security Agreement dated as of May 31, 2002, as amended (the "Loan Agreement"). The Borrower, the Lenders, the Guarantors and the Agent desire to amend the Loan Agreement as set forth below. All capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Loan Agreement.

NOW, THEREFORE, the Borrower, the Lenders, the Guarantors and the Agent hereby amend the Loan Agreement as follows:

Section 1. Revolving Advances. Section 2.1 of the Loan Agreement is hereby amended as follows:

(a) The period at the end of Section 2.1(a)(y)(iv) is deleted and replaced by ", minus" and the following Section 2.1(a)(y)(v) is added at the end thereof:

"(v) $20,000,000."

(b) The reference to "Sections 2.1(a)(y)(iii) and (iv)" in the last paragraph of Section 2.1(a) is deleted and replaced with the following:

"Sections 2.1(a)(y)(iii), (iv) and (v)"

Section 2. SunTrust Deposit Account. Section 7.4 of the Loan Agreement is hereby amended by deleting the "and" before subparagraph (g) and replacing it with "," and deleting the period at the end thereof and adding the following:

"and (h) deposits in a security account with SunTrust Bank not to exceed $350,000 at any time."

Section 3. <u>More Direct Payments</u>. Section 7.17 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"**7.17** ***<u>MoreDirect Payments</u>***. Make any payments pursuant to Sections 1.7(b) and (c) or Article VI of the MoreDirect Merger Agreement (other than payments made pursuant to that certain Escrow Agreement dated as of April 5, 2002 executed in connection with the MoreDirect Merger Agreement) unless no Event of Default shall have occurred and be continuing. Notwithstanding any other provision in this Agreement or any Other Document to the contrary, payments pursuant to Section 1.7(a) of the MoreDirect Merger Agreement may be made irrespective of whether or not an Event of Default shall have occurred and be continuing."

Section 4. <u>Assignment to Federal Reserve</u>. Section 15 of the Loan Agreement is hereby amended by adding the following Section 15.18 at the end thereof:

"**15.18** ***<u>Assignment to Federal Reserve</u>***. Any Lender may at any time pledge or assign all or any portion of its rights under the Loan Agreement including any portion of any Note to any of the twelve (12) Federal Reserve Banks organized under section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or assignment or enforcement thereof shall release such Lender from its obligations under the Loan Agreement or any Other Document."

[END OF TEXT]

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

PC CONNECTION, INC., as Borrower

By: /s/ Mark Gavin

Name: Mark Gavin
Title: CFO

COMTEQ FEDERAL OF NEW HAMPSHIRE, INC., as Guarantor

By: /s/ Gary Sorkin

Name: Gary Sorkin
Title: Treasurer

GOVCONNECTION, INC., as Guarantor

By: /s/ Gary Sorkin

Name: Gary Sorkin
Title: President

MERRIMACK SERVICES CORPORATION, as Guarantor

By: /s/ Mark Gavin

Name: Mark Gavin
Title: CFO

PC CONNECTION SALES CORPORATION, as Guarantor

By: /s/ Robert Wilkins

Name: Robert Wilkins
Title: Treasurer

PC CONNECTION SALES OF
MASSACHUSETTS, INC., as Guarantor

By: /s/ Robert Wilkins

Name: Robert Wilkins
Title: Treasurer

MOREDIRECT, INC., as Guarantor

By: /s/ Russell Madris

Name: Russell Madris
Title: CEO

CITIZENS BANK OF MASSACHUSETTS, as Lender and as Agent

By: /s/ Michael S. St. Jean

Name: Michael S. St. Jean
Title: Vice President

28 State Street
13th Floor
Boston, Massachusetts 02109

FLEET NATIONAL BANK

By: /s/ Christine M Madden

Name: Christine M Madden
Title: Assistant Vice President

1155 Elm Street
Manchester, NH 03101

SECOND AMENDMENT TO
AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT

Dated as of July 29, 2002

AMONG

CITIZENS BANK OF MASSACHUSETTS
(AS LENDER AND AS AGENT)

AND

THE FINANCIAL INSTITUTIONS PARTY HERETO
FROM TIME TO TIME
(AS LENDERS)

WITH

PC CONNECTION, INC.
(AS BORROWER)

AND

COMTEQ FEDERAL OF NEW HAMPSHIRE, INC.
GOVCONNECTION, INC.
MERRIMACK SERVICES CORPORATION
PC CONNECTION SALES CORPORATION
PC CONNECTION SALES OF MASSACHUSETTS, INC.
MOREDIRECT, INC.
(AS GUARANTORS)

<u>SECOND AMENDMENT TO</u>
<u>AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT</u>

This SECOND AMENDMENT TO AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT is entered into as of July 29, 2002 by and among PC CONNECTION, INC., a Delaware corporation (the “Borrower”), as borrower, COMTEQ FEDERAL OF NEW HAMPSHIRE, INC., a Delaware corporation, GOVCONNECTION, INC., a Maryland corporation, MERRIMACK SERVICES CORPORATION, a Delaware corporation, PC CONNECTION SALES CORPORATION, a Delaware corporation, PC CONNECTION SALES OF MASSACHUSETTS, INC., a Delaware corporation and MOREDIRECT, INC., a Florida corporation (together, the “Guarantors” and each, a “Guarantor”), as guarantors, CITIZENS BANK OF MASSACHUSETTS (the “Agent”), as agent and the lenders’ party thereto (the “Lenders”), as lenders.

<u>Recitals</u>

The Borrower, the Lenders, the Guarantors and the Agent are parties to an Amended and Restated Credit and Security Agreement dated as of May 31, 2002, as amended (the “Loan Agreement”). The Borrower, the Lenders, the Guarantors and the Agent desire to amend the Loan Agreement as set forth below. All capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Loan Agreement.

NOW, THEREFORE, the Borrower, the Lenders, the Guarantors and the Agent hereby amend the Loan Agreement as follows:

Section 1. <u>Definitions</u>. Article I of the Loan Agreement is hereby amended as follows:

(a) Section 1.2 of the Loan Agreement is amended by adding the definition “DFS” in appropriate alphabetical order thereto:

“DFS” shall be Deutsche Financial Services Corporation, a Nevada corporation.

(b) Section 1.2 of the Loan Agreement is amended by deleting the definition of “Maximum Advance Amount” in its entirety and replacing it with the following:

“Maximum Advance Amount” shall mean $45,000,000.

(c) The definition of “Obligations” in Section 1.2 of the Loan Agreement is amended by adding the following sentence at the end thereof:

Notwithstanding the foregoing, the definition of Obligations shall not include any loans, advances, debts, liabilities, obligations, covenants or duties owing by the Borrower or any Guarantor to DFS or any of its affiliates in connection with any inventory or equipment financing (other than Advances made by DFS hereunder).

(d) The definition of “Permitted Vendor Debt” in Section 1.2 of the Loan Agreement is amended by deleting the reference to Deutsche Financial Services Corporation and replacing it with the phrase “DFS (other than Advances made by DFS hereunder)”

Section 2. Revolving Advances. Article II of the Loan Agreement is hereby amended by deleting Section 2.1(c) in its entirety.

Section 3. Collateral Audit. Article III of the Loan Agreement is hereby amended by adding the following sentence at the end of Section 3.4 thereof:

Any Lender may accompany the Agent during the performance of a Collateral Audit at such Lender's expense.

Section 4. Monthly Financial Statements. Article IX of the Loan Agreement is hereby amended by deleting Section 9.9 in its entirety and replacing it with the following:

9.9 Bi-Monthly Financial Reporting. Furnish Agent within ten (10) days after the end of the second full week of each month and as of the end of each month, including the last month of the fiscal year and the second full week of such last month (a) accounts receivable agings, (b) accounts payable schedules and (c) a Borrowing Base Certificate in form and substance reasonably satisfactory to Agent, provided that none of the foregoing reports shall be binding upon Agent or restrictive of Agent's rights under this Agreement.

Section 5. Events of Default. Article X of the Loan Agreement is hereby amended by deleting the reference to "Other Agreement" in Section 10.1(d) and replacing it with "Other Document."

Section 6. Entire Understanding. Article XV of the Loan Agreement is hereby amended as follows:

(a) Section 15.2(b) of the Loan Agreement is hereby amended by deleting subparagraphs (i) through (vii) and replacing such provision with the following subparagraphs (i) through (ix):

(i) increase the Commitment Percentage, the maximum dollar commitment of any Lender or the Maximum Advance Amount;

(ii) extend the maturity of any Note or the due date for any amount payable hereunder, or increase or decrease the rate of interest or reduce any fee or Indebtedness payable by Borrower to Lenders pursuant to this Agreement;

(iii) alter the definition of the term Required Lenders or alter, amend or modify this Section 15.2(b);

(iv) release any Collateral during any calendar year (other than in accordance with the provisions of this Agreement, including Section 7.1 hereof);

(v) change the rights and duties of Agent;

(vi) increase or decrease the Advance Rates or reserves above or below the Advance Rates and reserves in effect on the Closing Date;

(vii) release any Guarantor;

(viii) waive, amend or change any financial covenant or Section 2.1(a)(y)(v) hereof; or

(ix) permit any acquisition by the Borrower or any Guarantor for an aggregate consideration of greater than $5,000,000.

(b) Section 15.2(b) of the Loan Agreement is hereby amended by deleting the last two paragraphs thereof.

Section 7. Commitment Transfer and Waiver of Transfer Fee. Upon the satisfaction of the conditions set forth in Section 8 hereof, the Commitment Percentage of Citizens Bank of Massachusetts shall be 55.56%, of Fleet National Bank shall be 22.22% and of Deutsche Financial Services Corporation shall be 22.22%. The parties hereto hereby agree to waive payment by DFS as Purchasing Lender of the $3,500 transfer fee required to be paid pursuant to the terms of Section 15.3(d) of the Loan Agreement.

Section 8. Effectiveness; Conditions to Effectiveness. This Second Amendment shall become effective upon execution hereof by the Borrower and the Lenders and satisfaction of the following conditions:

(a) Execution and delivery to the Agent of a Commitment Transfer Supplement by and among Citizens Bank of Massachusetts, Deutsche Financial Services Corporation and the Borrower;

(b) Execution and delivery to the Agent of (i) a $10,000,000 Revolving Credit Note by the Borrower in favor of Deutsche Financial Services Corporation and (ii) a $25,000,000 Amended and Restated Revolving Credit Note in favor of Citizens Bank of Massachusetts (collectively, the “Revised Notes”);

(c) Receipt by Deutsche Financial Services Corporation of an amendment fee of $16,666.67 from the Borrower;

(d) Copies of resolutions of the Board of Directors of the Borrower and the Guarantors authorizing the execution, delivery and performance by the Borrower and the Guarantors under this Second Amendment and by the Borrower under the Revised Notes and certified by a Secretary or an Assistant Secretary of the Borrower and the Guarantors, which certificates shall state that the resolutions are in full force and effect;

(e) Certificate of the Secretary or Assistant Secretary of the Borrower and the Guarantors certifying the name and signatures of the officers of the Borrower and the Guarantors authorized to sign this Second Amendment, the Revised Notes and other documents to be delivered in connection therewith, as well as certifying that the articles of incorporation and by-laws of the Borrower and the Guarantors have not been amended since the last date that such corporate documents were delivered to the Agent;

(f) Legal Opinions of counsel to the Borrower and the Guarantors in form and substance satisfactory to Agent;

(g) Certificates of legal existence and good standing dated as of a recent date for each of the Borrower and Guarantors issued by the appropriate governmental authorities.

(h) All other documents as the Agent and the Lenders may reasonably request.

Section 9. Miscellaneous.

(a) The Borrower agrees that each of the Documents shall remain in full force and effect after giving effect to this Second Amendment. The guarantees of the Borrower's Subsidiaries guarantee all of the Obligations as may be amended by this Second Amendment.

(b) This Second Amendment represents the entire agreement among the parties hereto relating to this Second Amendment, and supersedes all prior understandings and agreements among the parties relating to the subject matter of this Second Amendment.

(c) The Borrower agrees to pay on demand all of the Agent's reasonable expenses in preparing, executing and delivering this Second Amendment, and all related instruments and documents, including, without limitation, the reasonable fees and out-of-pocket expenses of the Agent's special counsel.

(d) The Borrower hereby confirms to the Agent that the representations and warranties of the Borrower set forth in Article 5 of the Loan Agreement (as amended and supplemented hereby) are true and correct as of the date hereof, as if set forth herein in full.

(e) The Borrower has reviewed the provisions of this Second Amendment and all documents executed in connection therewith or pursuant thereto or incident or collateral hereto or thereto from time to time and there is no Event of Default thereunder, and no condition which, with the passage of time or giving of notice or both, would constitute an Event of Default thereunder.

(f) The Borrower represents and warrants that the execution, delivery or performance by the Borrower of any of the obligations contained in this Second Amendment or in any other Document do not require the consent, approval or authorization of any person or governmental authority or any action by or on account of with respect to any person or governmental authority.

(g) This Second Amendment shall be a Document and shall be governed by and construed and enforced under the laws of The Commonwealth of Massachusetts without regard to principles relating to choice of law.

[Signature page to follow]

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

PC CONNECTION, INC., as Borrower

By: /s/ Mark A Gavin

Name: Mark A. Gavin
Title: CFO

COMTEQ FEDERAL OF NEW HAMPSHIRE, INC., as Guarantor

By: /s/ Gary Sorkin

Name: Gary Sorkin
Title: Treasurer

GOVCONNECTION, INC., as Guarantor

By: /s/ Gary Sorkin

Name: Gary Sorkin
Title: President

MERRIMACK SERVICES CORPORATION, as Guarantor

By: /s/ Mark A Gavin

Name: Mark A. Gavin
Title: CFO

PC CONNECTION SALES CORPORATION, as Guarantor

By: /s/ Robert Wilkins

Name: Robert Wilkins
Title: Treasurer

PC CONNECTION SALES OF
MASSACHUSETTS, INC., as Guarantor

By: /s/ Robert Wilkins

Name: Robert Wilkins
Title: Treasurer

MOREDIRECT, INC., as Guarantor

By: /s/ Scott Modist

Name: Scott Modist
Title: CFO

CITIZENS BANK OF MASSACHUSETTS, as
Lender and as Agent

By: /s/ James C. Gregg

Name: James C. Gregg
Title: Senior Vice President & Managing Director

28 State Street
13th Floor
Boston, Massachusetts 02109

FLEET NATIONAL BANK

By: /s/ Kenneth R. Sheldon

Name: Kenneth R. Sheldon
Title: Vice President

1155 Elm Street
Manchester, NH 03101

DEUTSCHE FINANCIAL SERVICES CORPORATION

By: /s/ Kenneth C. MacDonell

Name: Kenneth C. MacDonell
Title: Vice President

625 Maryville Center Drive, Suite 200
St Louis, MO 63141

EXHIBIT 10.46

PC Connection, Inc.

Merrimack Services Corporation

GovConnection, Inc.

MoreDirect, Inc.

AGREEMENT FOR INVENTORY FINANCING

Table of Contents

AGREEMENT FOR INVENTORY FINANCING

This **AGREEMENT FOR INVENTORY FINANCING** (as amended, supplemented or otherwise modified from time to time, this "Agreement") is hereby made as of the 31st day of October, 2002 by and among **IBM Credit Corporation,** a corporation duly organized under the laws of the State of Delaware, with a place of business at 1500 RiverEdge Parkway, Atlanta, GA 30328 ("IBM Credit"), **Merrimack Services Corporation** a corporation, duly organized under the laws of the State of Delaware, with its principal place of business at 730 Milford Road, Merrimack, NH 03054 ("Merrimack"), **GovConnection, Inc.** a corporation, duly organized under the laws of the State of Maryland, with its principal place of business at 7503 Standish Place, Rockville, MD 20855 ("GovConnection"), and **MoreDirect, Inc.** a corporation, duly organized under the laws of the State of Florida, with its principal place of business at 7300 N. Federal Hwy., Suite 200, Boca Raton, FL 33487 ("MoreDirect") (Merrimack, GovConnection and MoreDirect are referred to herein as a "Customer" or, collectively, the "Customers") and **PC Connection, Inc.,** a corporation, duly organized under the laws of the State of Delaware, with its principal place of business at 730 Milford Road, Merrimack, NH 03054 ("PC Connection"),. Notwithstanding the foregoing, and unless otherwise indicated, any obligation of a "Customer" or "Customers" herein shall be the joint and several obligation of Merrimack, GovConnection and MoreDirect.

W I T N E S S E T H

WHEREAS, IBM Credit and GovConnection are parties to that certain Agreement for Wholesale Financing dated as of October 12, 1993 (as amended, supplemented or otherwise modified from time to time, the "AWF/G") pursuant to which IBM Credit finances GovConnection's working capital and acquisition of inventory and equipment;

WHEREAS, IBM Credit and MoreDirect are parties to that certain Agreement for Wholesale Financing dated as of August 9, 2000 (as amended, supplemented or otherwise modified from time to time, the "AWF/M") pursuant to which IBM Credit finances MoreDirect's acquisition of inventory and equipment;

WHEREAS, IBM Credit, Merrimack and PC Connection, Inc. ("PC Connection") are parties to that certain Agreement for Inventory Financing, dated as of August 17, 1999, (as amended, supplemented or otherwise modified from time to time, the "AIF", the AWF/G, AWF/M and the AIF are herein referred to as the "Existing Agreements") pursuant to which IBM Credit finances Merrimack's and PC Connection's acquisition of inventory and equipment;

WHEREAS, MoreDirect, Merrimack and GovConnection are wholly owned subsidiaries of PC Connection and will derive benefits, both directly and indirectly from this Agreement;

WHEREAS, The Customers now desire to amend and restate the Existing Agreements for purposes of consolidating the facilities thereunder and IBM Credit is willing to make such changes on the terms and conditions set forth herein;

WHEREAS, PC Connection will no longer require financing from IBM Credit and accordingly will not be a Customer hereunder:

WHEREAS, simultaneously herewith, PC Connection shall execute and deliver a collateralized guaranty in favor of IBM Credit;

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

WHEREAS, Customers have requested that IBM Credit finance their respective purchases of Products from such Authorized Suppliers and IBM Credit is willing to provide such financing to Customers subject to the terms and conditions set forth in this Agreement.

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

Section 1. DEFINITIONS; ATTACHMENTS

1.1. Special Definitions. The following terms shall have the following respective meaning in this Agreement (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

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

“Affiliate”: with respect to any Customer, any Person meeting one of the following: (i) at least 25% of such Person’s equity is owned, directly or indirectly, by such Customer; (ii) at least 25% of such Customer’s equity is owned, directly or indirectly, by such Person; or (iii) at least 25% of any Customer’s equity and at least 25% of such Person’s equity is owned, directly or indirectly, by the same Person or Persons. All of Customers’ officers, directors, joint venturers, and partners shall also be deemed to be Affiliates of the Customers for purposes of this Agreement.

“Agreement”: as defined in the caption.

“Auditors”: a nationally recognized firm of independent certified public accountants selected by Customers and satisfactory to IBM Credit.

“Authorized Suppliers”: as defined in the recitals of this Agreement.

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

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

“Borrowing Base”: as defined in Attachment A.

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

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

“Code”: the Internal Revenue Code of 1986, as amended or any successor statute.

“Collateral”: as defined in Section 4.1.

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

"Commercial Tort Claim": a claim arising in tort with respect to which (a) the claimant is an organization or (b) the claimant is an individual and the claim (i) arose in the course of the claimant's business or profession and (ii) does not include damages arising out of personal injury to or the death of the individual.

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

"Compliance Certificate": a certificate substantially in the form of Attachment C.

"Credit Line": as defined in Section 2.1.

"Customers": as defined in the caption.

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

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

"Deposit Account": a demand, time, savings, passbook, or similar account maintained with a bank.

"Environmental Laws": all statutes, laws, judicial decisions, regulations, ordinances, and other governmental restrictions relating to pollution, the protection of the environment, occupational health and safety, or to emissions, discharges or release of pollutants, contaminants, hazardous substances or wastes into the environment.

"Environmental Liability": any claim, demand, obligation, cause of action, allegation, order, violation, injury, judgment, penalty or fine, cost or expense, resulting from the violation or alleged violation of any Environmental Laws or the imposition of any Lien pursuant to any Environmental Laws.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended, or any successor statutes.

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

"Financial Statements": the consolidated balance sheets, statements of operations, statements of cash flows and statements of changes in shareholder's equity of Customers and their Subsidiaries for the period specified, prepared in accordance with GAAP and consistent with prior practices.

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

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

“Free Financing Period Exclusion Fee”: as defined in Attachment A.

“GAAP”: generally accepted accounting principles in the United States of America as in effect from time to time.

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

“Hazardous Substances”: all substances, wastes or materials, to the extent subject to regulation as “hazardous substances” or “hazardous waste” under any Environmental Laws.

“IBM Credit”: as defined in the caption.

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

“Investment”: with respect to any Person (the “Investor”), (1) any investment by the Investor in any other Person, whether by means of share purchase, capital contribution, purchase or other acquisition of a partnership or joint venture interest, loan, time deposit, demand deposit or otherwise, and (2) any guaranty by the Investor of any Indebtedness or other obligation of any other Person.

“Letter of Credit Right”: any right to payment or performance under a letter of credit, whether or not the beneficiary has demanded or is at the time entitled to demand payment or performance.

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

“Loan Party”: the Customers, PC Connection and any other Person which now or hereafter executes this Agreement or any Other Document.

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

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

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

“Other Charges”: as set forth in Attachment A.

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

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

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

“PBGC”: as defined in Section 6.12.

“PC Connection”: as defined in the first paragraph of this Agreement.

“Permitted Indebtedness”: any of the following:

(1) Indebtedness to IBM Credit;

(2) Indebtedness described in the respective Section 7 of Attachment B for each Loan Party;

(3) Indebtedness to any Floor Plan Lender;

(4) Purchase Money Indebtedness;

(5) guaranties in favor of IBM Credit or any other Floor Plan Lender; and

(6) other Indebtedness consented to by IBM Credit in writing prior to incurring such Indebtedness.

“Permitted Liens”: any of the following:

(1) Liens which are the subject of an Intercreditor Agreement, in effect from time to time between IBM Credit and any other secured creditor;

(2) Purchase Money Security Interests;

(3) Liens described in the respective Section 1 of Attachment B for each Loan Party and subordinated on terms and conditions satisfactory to IBM Credit;

(4) Liens of warehousemen, mechanics, materialmen, workers, repairmen, common carriers, landlords and other similar Liens arising by operation of law or otherwise, not waived in connection herewith, for amounts that are not yet due and payable or being contested in good faith by appropriate proceedings promptly instituted and diligently conducted if an adequate reserve or other appropriate provisions shall have been made therefor as required to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect;

(5) attachment or judgment Liens individually or in the aggregate not in excess of $1,000,000.00 (exclusive of (A) any amounts that are duly bonded to the satisfaction of IBM Credit or (B) any amount fully covered by insurance as to which the insurance company has acknowledged its obligation to pay such judgment in full);

(6) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of any Customer;

(7) extensions and renewals of the foregoing Permitted Liens; provided that (A) the aggregate amount of such extended or renewed Liens do not exceed the original principal amount of the Indebtedness which it secures, (B) such Liens do not extend to any property other than property already previously subject to the Lien and (C) such extended or renewed Liens are on terms and conditions no more restrictive than the terms and conditions of the Liens being extended or renewed;

(8) Liens arising from deposits or pledges to secure bids, tenders, contracts, leases, surety and appeal bonds and other obligations of like nature arising in the ordinary course of any Customer’s business;

(9) Liens for taxes, assessments or governmental charges not delinquent or being contested, in good faith, by appropriate proceedings promptly instituted and diligently conducted if an adequate reserve or other appropriate provisions shall have been made therefor as required in order to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect;

(10) Liens arising out of deposits in connection with workers’ compensation, unemployment insurance or other social security or similar legislation;

(11) Liens arising pursuant to this Agreement; and

(12) other Liens consented to by IBM Credit in writing prior to incurring such Lien and subordinated on terms and conditions satisfactory to IBM Credit.

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

“Plans”: as defined in Section 6.12.

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

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

"Products": as defined in the recitals of this Agreement.

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

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

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

"Properties": the facilities or properties owned, leased or operated by any Customer or any Subsidiary.

"Purchase Money Indebtedness": any Indebtedness (including capital leases) incurred to finance the acquisition of assets (other than assets manufactured or distributed by or bearing any trademark or trade name of any Authorized Supplier) to be used in the Customers' business not to exceed the lesser of (1) the purchase price or acquisition cost of such asset and (2) the fair market value of such asset.

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

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

"Shortfall Amount": as defined in Section 2.5.

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

"State": as defined in the U.C.C.

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

"Supplier Credits": as defined in Section 2.2.

"Supporting Obligation": any Letter of Credit Right or secondary obligation that supports the payment or performance of an Account, chattel paper, a document, a General Intangible, an instrument, Investment Property, or any other Collateral.

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

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

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

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

Section 2. CREDIT LINE; FINANCE CHARGES; OTHER CHARGES

2.1. Credit Line. Subject to the terms and conditions set forth in this Agreement, on and after the Closing Date to but not including the date that is the earlier of (i) the date on which this Agreement is terminated pursuant to Section 10.1 and (ii) the date on which IBM Credit terminates the Credit Line pursuant to Section 9.2, IBM Credit agrees to extend to GovConnection, Merrimack and MoreDirect a credit line ("Credit Line") in the amount set forth in Attachment A pursuant to which IBM Credit will make to GovConnection, Merrimack and MoreDirect, from time to time, Advances in an aggregate amount at any one time outstanding not to exceed the Credit Line. Notwithstanding any other term or provision of this Agreement, IBM Credit may, at any time and from time to time, in its sole and absolute discretion (x) temporarily increase the amount of the Credit Line set forth in Attachment A and decrease the amount of the Credit Line to the amount of the Credit Line set forth in Attachment A, in each case upon written notice to the Customers, and (y) make Advances pursuant to this Agreement upon the request of any Customer in an aggregate amount at any one time outstanding in excess of the Credit Line.

2.2. Product Advances. (A) Subject to the terms and conditions of this Agreement, IBM Credit shall make Product Advances in connection with a Customer's purchase of Products from Authorized Suppliers upon at least a two-day prior written notice from Authorized Suppliers. Each Customer hereby authorizes and directs IBM Credit to pay the proceeds of Product Advances directly to the applicable Authorized Supplier in respect of invoices delivered to IBM Credit for such Products by such Authorized Supplier and acknowledges that (i) any delivery to IBM Credit of an invoice by an Authorized Supplier shall be deemed as a request for a Product Advance by a Customer, and (ii) each such Product Advance constitutes a loan by IBM Credit to such Customer pursuant to this Agreement as if such Customer received the proceeds of the Product Advance directly from IBM Credit. IBM Credit may, upon written notice to Customers, cease to include a supplier as an Authorized Supplier.

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

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

(D) Each Customer hereby authorizes IBM Credit to collect directly from any Authorized Supplier any credits, rebates, bonuses or discounts owed by such Authorized Supplier to such Customer ("Supplier Credits"). Any Supplier Credits received by IBM Credit shall be applied by IBM Credit to the Outstanding Advances unless refunded. Any Supplier Credits collected by IBM Credit shall in no way reduce such Customer's debt to IBM Credit in respect of the Outstanding Advances until such Supplier Credits are applied by IBM Credit; provided, however, that in the event any such Supplier Credits must be returned or disgorged or are otherwise unavailable for application, then such Customer's Obligations will be reinstated as if such Supplier Credits had never been applied.

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

(F) Each Customer will indemnify and hold IBM Credit harmless from and against any claims or demands asserted by any Person relating to or arising from the Products for any reason whatsoever, including, without limitation, the condition of the Products, any misrepresentation made about the Products by any representative of any Customer, or any act or failure to act by any Customer except to the extent such claims or demands are directly attributable to IBM Credit's gross negligence or willful misconduct. Nothing contained in the foregoing shall impair any rights or claims which any Customer may have against any manufacturer, distributor or Authorized Supplier.

2.3. Finance and Other Charges. (A) Finance charges for an Advance for a calendar month shall be equal to (i) one twelfth (1/12) of the applicable Product Financing Charge multiplied by (ii) the Average Daily Balance of such Advance for the period when such finance charge accrues during such calendar month multiplied by (iii) the actual number of days during such calendar month when such finance charge accrues divided by (iv) thirty (30).

Late charges pursuant to subsection (D) of this Section 2.3 for an Advance for a calendar month shall be equal to (i) one twelfth (1/12) of the Delinquency Fee Rate multiplied by (ii) the Average Daily Balance of such Advance for the period when such Advance is past due during such calendar month multiplied by (iii) the actual number of days during such calendar month when such Advance is past due divided by (iv) thirty (30).

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

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

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

2.4. Customer Account Statements. IBM Credit will send statements of each transaction hereunder as well as monthly billing statements to Customer with respect to Advances and other charges due on Customers' account with IBM Credit. Each statement of transaction and monthly billing statement shall be deemed, absent manifest error, to be correct and shall constitute an account stated with respect to each transaction or amount described therein unless within ten (10) Business Days after such statement of transaction or billing statement is received by a Customer, such Customer provides IBM Credit written notice objecting that such amount or transaction is incorrectly described therein and specifying the error(s), if any, contained therein. IBM Credit may at any time adjust such statements of transaction or billing statements to comply with applicable law and this Agreement.

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

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

2.7. Prepayment and Reborrowing By Customer. (A) Customers may at any time prepay, without notice or penalty, in whole or in part amounts owed under this Agreement. IBM Credit may apply payments made to it (whether by the Customers or otherwise) to pay finance charges and other amounts owing under this Agreement first and then to the principal amount owed by the Customers.

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

Section 3. CREDIT LINE ADDITIONAL PROVISIONS

3.1. Authorization to File; Power of Attorney. Each Customer authorizes IBM Credit to file with any filing office such financing statements, amendments, addenda and other records showing IBM Credit as secured party, such Customer as debtor and identifying IBM Credit's security interest in the Collateral that IBM Credit deems necessary to perfect and maintain perfected the security interest of IBM Credit in the Collateral. Each Customer hereby irrevocably appoints IBM Credit, with full power of substitution, as its true and lawful attorney-in-fact with full power, in good faith and in compliance with commercially reasonable standards, in the discretion of IBM Credit, to:

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

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

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

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

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

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

Section 4. SECURITY — COLLATERAL

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

(A) all goods manufactured or sold by International Business Machines Corporation ("IBM") or Lexmark International, Inc. ("Lexmark") or bearing the trademarks or trade names of IBM or Lexmark, including, inventory and equipment and all parts thereof, attachments, accessories and accessions thereto, products thereof and documents therefor, but excluding, however, each Customer's capital equipment;

(B) all price protection payments, credits, discounts, incentive payments, rebates, and refunds which at any time are due to Customers with respect to or in connection with any inventory and equipment described in (A) above;

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

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

Each Customer covenants and agrees with IBM Credit that: (a) the security constituted to by this Agreement is in addition to any other security from time to time held by IBM Credit; (b) the security hereby created is a continuing security interest and will cover and secure the payment of all Obligations both present and future of Customers to IBM Credit; and (c) any transfer of Collateral between GovConnection, Merrimack and MoreDirect is subject to IBM Credit's continuing security interest in the Collateral of the transferor as well as IBM Credit's continuing security interest in the Collateral of the transferee.

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

Section 5. CONDITIONS PRECEDENT

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

(A) this Agreement executed and delivered by each Customer, PC Connection and IBM Credit;

(B) a certificate of the secretary or an assistant secretary of Customers and PC Connection, substantially in the form and substance of Attachment G hereto, certifying that, among other items, (i) true and complete copies of the articles of incorporation, or corresponding organizational documents, as applicable, and by-laws of each Customer and PC Connection are delivered therewith, together with all amendments and addenda thereto as in effect on the date thereof, (ii) the resolution as stated in the certificate is a true, accurate and compared copy of the resolution adopted by each Customer's and PC Connection's Board of Directors or, if any Customer is a limited liability company, by such Customer's authorized members, authorizing the execution, delivery and performance of this Agreement and each Other Document executed and delivered in connection herewith, and (iii) the names and true signatures of the officers of each Customer and PC Connection authorized to sign this Agreement and the Other Documents;

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

(E) copies of all approvals and consents from any Person in each case in form and substance satisfactory to IBM Credit, which are required to enable each Customer and PC Connection to authorize, or required in connection with, (a) the execution, delivery or performance of this Agreement and each of the Other Documents, and (b) the legality, validity, binding effect or enforceability of this Agreement and each of the Other Documents;

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

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

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

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

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

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

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

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

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

Except as Customers have otherwise disclosed to IBM Credit in writing prior to each request, each request (or deemed request pursuant to Section 2.2(A)) for an Advance hereunder shall be deemed to be a representation and warranty by Customers that, as of and on the date of such Advance, the statements set forth in (A) through (D) above are true statements. No such disclosures by Customers to IBM Credit shall in any manner be deemed to satisfy the conditions precedent to each Advance that are set forth in this Section 5.2.

Section 6. REPRESENTATIONS AND WARRANTIES

To induce IBM Credit to enter into this Agreement, each Customer (and PC Connection to the extent any of the following representations apply to PC Connection as well) represents and warrants to IBM Credit as follows:

6.1. Organization and Qualifications. The first paragraph of this Agreement states the exact name of each Customer as set forth in its charter or other organizational record. In addition, each Customer’s organizational identification number assigned by its State of organization is as set forth in Attachment B. Each Customer and each of its Subsidiaries (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has the power and authority to own its properties and assets and to transact the businesses in which it presently is engaged and (iii) is duly qualified and is authorized to do business and is in good standing in each jurisdiction where it presently is engaged in business and is required to be so qualified.

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

6.3. No Conflicts. The execution, delivery and performance by each Customer and PC Connection of this Agreement and each of the Other Documents (i) are within their respective powers under their organizational documents; (ii) are duly authorized by all necessary corporate or limited liability company actions; (iii) are not in contravention in any respect of any Requirement of Law or any indenture, contract, lease, agreement, instrument or other commitment to which any Customer or PC Connection is a party or by which it or any of its properties are bound which could reasonably be expected to have a Material Adverse Effect; (iv) do not require the consent, registration or approval of any Governmental Authority or any other Person (except such as have been duly obtained, made or given, and are in full force and effect); and (v) will not, except as contemplated herein, result in the imposition of any Liens upon any of their respective Collateral or collateral granted pursuant to a Guaranty.

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

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

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

6.6. Fictitious Business Names. No Customer has used any company or fictitious name during the five (5) years preceding the date of this Agreement, other than those listed on Attachment B.

6.7. Organization. All of the outstanding capital stock of each Customer which is a corporation has been validly issued, is fully paid and nonassessable.

6.8. No Judgments or Litigation. Except as set forth on Attachment B, no judgments, orders, writs or decrees are outstanding against any Customer or PC Connection nor is there now pending or, to the best of any Customer's knowledge after due inquiry, threatened, any litigation, contested claim, investigation, arbitration, or governmental proceeding by or against such Customer or PC Connection, which in any case could reasonably be expected to have a have a Material Adverse Effect.

6.9. No Defaults. None of PC Connection or any Customer is in default under any term of any indenture, contract, lease, agreement, instrument or other commitment to which it is a party or by which it, or any of its properties are bound, which in any case could reasonably be expected to have a Material Adverse Effect. None of PC Connection or any Customer has knowledge of any dispute regarding any such indenture, contract, lease, agreement, instrument or other commitment. No Default or Event of Default has occurred and is continuing.

6.10. Labor Matters. Except as set forth on any notice provided by a Customer to IBM Credit pursuant to Section 7.1 (H) of this Agreement, no Customer is a party to any labor dispute, which in any case could reasonably be expected to have a Material Adverse Effect. There are no strikes or walkouts or labor controversies pending or threatened against any Customer which could reasonably be expected to have a Material Adverse Effect.

6.11. Compliance with Law. No Customer has violated or failed to comply with any Requirement of Law or any requirement of any self regulatory organization, except for any such violation or failure that could not reasonably be expected to have a Material Adverse Effect.

6.12. ERISA. Each "employee benefit plan", "employee pension benefit plan", "defined benefit plan", or "multi-employer benefit plan", which any Customer has established, maintained, or to which it is required to contribute (collectively, the "Plans") is in compliance in all material respects with all applicable provisions of ERISA and the Code and the rules and regulations thereunder as well as the Plan's terms and conditions. There have been no "prohibited transactions" and no "reportable event" has occurred within the last 60 months with respect to any Plan. No Customer has a "multi-employer benefit plan". As used in this Agreement the terms "employee benefit plan", "employee pension benefit plan", "defined benefit plan", and "multi-employer benefit plan" have the respective meanings assigned to them in Section 3 of ERISA and any applicable rules and regulations thereunder. No Customer has incurred any "accumulated funding deficiency" within the meaning of ERISA or incurred any liability to the Pension Benefit Guaranty Corporation (the "PBGC") in connection with a Plan (other than for premiums due in the ordinary course).

6.13. Compliance with Environmental Laws. Except as otherwise disclosed in Attachment B or except as noncompliance could not reasonably be expected to have a Material Adverse Effect:

(A) Each Customer has obtained all government approvals required with respect to the operation of their businesses under any Environmental Law.

(B) (i) no Customer has generated, transported or disposed of any Hazardous Substances; (ii) no Customer is currently generating, transporting or disposing of any Hazardous Substances; (iii) no Customer has knowledge that (a) any of its real property (whether owned, leased, or otherwise directly or indirectly controlled) has been used for the disposal of or has been contaminated by any Hazardous Substances, or (b) any of its business operations have contaminated lands or waters of others with any Hazardous Substances; (iv) no Customer nor any respective assets are subject to any Environmental Liability and, to the best of each Customer's knowledge, any threatened Environmental Liability; (v) no Customer has received any notice of or otherwise learned of any governmental investigation evaluating whether any remedial action is necessary to respond to a release or threatened release of any Hazardous Substance for which any Customer may be liable; (vi) no Customer is in violation of any Environmental Law; (vii) there are no proceedings or investigations pending against any Customer with respect to any violation or alleged violation of any Environmental Law; provided however, that the parties acknowledge that any generation, transportation, use, storage and disposal of certain such Hazardous Substances in Customers' or their Subsidiaries' business shall be excluded from representations (i) and (ii) above, provided, further, that each Customer is at all times generating, transporting, utilizing, storing and disposing such Hazardous Substances in accordance with all applicable Environmental Laws and in a manner designed to minimize the risk of any spill, contamination, release or discharge of Hazardous Substances other than as authorized by Environmental Laws.

6.14. Licenses and Permits. Each Customer has obtained and holds in full force and effect all franchises, licenses, leases, permits, certificates, authorizations, qualifications, easements, rights of way and other rights and approvals which are necessary for the operation of its businesses as presently conducted. No Customer is in violation of the terms of any such franchise, license, lease, permit, certificate, authorization, qualification, easement, right of way, right or approval, except for any such violation that could not reasonably be expected to have a Material Adverse Effect.

6.15. Investment Company. No Customer is (i) an investment company or a company controlled by an investment company within the meaning of the Investment Company Act of 1940, as amended, (ii) a holding company or a subsidiary of a holding company, or an Affiliate of a holding company or of a subsidiary of a holding company, within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (iii) subject to any other law which purports to regulate or restrict its ability to borrow money or to consummate the transactions contemplated by this Agreement or the Other Documents or to perform its obligations hereunder or thereunder.

6.16. Taxes and Tax Returns. Each Customer has timely filed all federal, state, and local tax returns and other reports which it is required by law to file, and has either duly paid all taxes, fees and other governmental charges indicated to be due on the basis of such reports and returns or pursuant to any assessment received by any Customer, or made provision for the payment thereof in accordance with GAAP. The charges and reserves on the books of each Customer in respect of taxes or other governmental charges are in accordance with GAAP. No tax liens have been filed against any Customer or any of its property.

6.17. Affiliate/Subsidiary Transactions. No Customer is a party to or bound by any agreement or arrangement (whether oral or written) to which any Affiliate or Subsidiary of any Customer is a party except (i) in the ordinary course of and pursuant to the reasonable requirements of Customers' business and (ii) upon fair and reasonable terms no less favorable to such Customer than it could obtain in a comparable arm's-length transaction with an unaffiliated Person. Except as disclosed to IBM Credit by each Customer in writing from time to time after the Closing Date, Attachment B sets forth with respect to each Subsidiary

(i) its name; (ii) if a registered organization, the State of its formation; (iii) if a non-registered organization, the State of its principal place of business and chief executive offices; (iv) if a proprietorship, proprietor's principal place of residence; and (v) as to each Subsidiary the percentage of ownership by such Customer.

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

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

6.20. Indebtedness. Customers (i) have no Indebtedness, other than Permitted Indebtedness; and (ii) have not guaranteed the obligations of any other Person (except as permitted by Section 8.4).

6.21. Not Consumer Transaction. None of the Advances are consumer-goods transactions or consumer transactions and none of the Collateral constitutes consumer goods.

6.22. Security Interest. Each Customer has authorized IBM Credit to make all filings and other actions necessary to perfect the security interest in the Collateral created under this Agreement, and this Agreement creates in favor of IBM Credit a valid first priority security interest in the Collateral.

Section 7. AFFIRMATIVE COVENANTS

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

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

(A) as soon as available and in any event within ninety (90) days after the end of each fiscal year of Customers (i) audited Consolidated Financial Statements of PC Connection and its subsidiaries as of the close of the fiscal year and for the fiscal year, together with a comparison to the Financial Statements for the prior year, in each case accompanied by an opinion of the Auditors without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit or, if so qualified, an opinion which shall be in scope and substance reasonably satisfactory to IBM Credit,; and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C hereto, of the calculations used in determining, as of the end of such fiscal year, whether Customers are in compliance with the financial covenants set forth in Attachment A;

(B) as soon as available and in any event within forty-five (45) days after the end of each fiscal quarter of Customers (i) Condensed Consolidated Financial Statements of PC Connection and its subsidiaries as of the end of such period and for the fiscal year to date, together with a comparison to the Financial Statements for the same periods in the prior year, all in reasonable detail and duly reviewed by the Auditors; and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C hereto, of the calculations used in determining, as of the end of such fiscal quarter, whether Customers are in compliance with the financial covenants set forth in Attachment A;

(C) promptly after any Customer obtains knowledge of (i) the occurrence of a Default or Event of Default, or (ii) the existence of any condition or event which would result in any Customer's failure to satisfy the conditions precedent to Advances set forth in Section 5, a certificate of the chief executive officer or chief financial officer of such Customer specifying the nature thereof and such Customer's proposed response thereto, each in reasonable detail;

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

(G) promptly after any Customer obtains knowledge that (i) any order, judgment or decree in excess of $1,000,000 shall have been entered against any Customer or any of its properties or assets, or (ii) it has received any notification of a violation of any Requirement of Law from any Governmental Authority (except to the extent such violation individually or together with any other violations could not reasonably be expected to have a Material Adverse Effect), a certificate of the chief executive officer or chief financial officer of such Customer specifying the nature thereof and such Customer's proposed response thereto, each in reasonable detail;

(H) promptly after any Customer learns of any material labor dispute to which any Customer may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which any Customer is a party or by which it is bound, a certificate of the chief executive officer or chief financial officer of such Customer specifying the nature thereof and such Customer's proposed response thereto, each in reasonable detail;

(I) within ten (10) Business Days after request by IBM Credit, any written certificates, schedules and reports together with all supporting documents as IBM Credit may reasonably request relating to the Collateral or any Customer's or any guarantor's business affairs and financial condition;

(J) by the fifth (5th) day of each month, or as otherwise agreed in writing, a Collateral Management Report as of a date no earlier than the last day of the immediately preceding month;

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

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

7.2. Location of Customers and Collateral. If any Customer is a registered organization, the organizational document creating such Customer has been filed in the appropriate office of the State referred to in the first paragraph of this Agreement. The Collateral shall be kept or sold at the addresses as set forth on Attachment B or on any notice provided by a Customer to IBM Credit in accordance with Section 7.7(C). Such locations shall be certified quarterly to IBM Credit substantially in the form of Attachment F.

7.3. Changes in a Customer Address. If any Customer is a registered organization, as defined in Article 9 of the U.C.C., such Customer shall provide thirty (30) days prior written notice to IBM Credit of any change in such Customer's chief executive office or principal place of business, provided, however, that Customers' compliance with this covenant shall not relieve them of any of their other obligations or any other provisions under this Agreement or any of the Other Documents limiting actions of the type described in this Section.

7.4. Legal Entity Existence. Each Customer shall (A) maintain, and cause each of its Subsidiaries to maintain, its legal entity existence, maintain in full force and effect all rights, privileges, licenses, bonds, franchises, leases and qualifications to do business, and all Properties, contracts and other rights necessary in each case to the conduct of its business, (B) authorize for itself and, if applicable, cause each of its Subsidiaries to authorize IBM Credit to file UCC financing statements to perfect and maintain perfection of IBM Credit's security interest in the Collateral, (C) continue in, and limit its operations to, the same general lines of business as presently conducted by it and (C) comply with all Requirements of Law except to the extent noncompliance could not have a Material Adverse Effect.

7.5. ERISA. Each Customer shall promptly notify IBM Credit in writing after it learns of the occurrence of any event which would constitute a "reportable event" under ERISA or any regulations thereunder with respect to any Plan, or that the PBGC has instituted or will institute proceedings to terminate any Plan. Notwithstanding the foregoing, a Customer shall have no obligation to notify IBM Credit as to any "reportable event" as to which the 30-day notice requirement of Section 4043(b) has been waived by the PBGC, until such time as such Customer is required to notify the PBGC of such reportable event. Such notification shall include a certificate of the chief financial officer of such Customer setting forth details as to such "reportable event" and the action which such Customer proposes to take with respect thereto, together with a copy of any notice of such "reportable event" which may be required to be filed with the PBGC, or any notice delivered by the PBGC evidencing its intent to institute such proceedings. Upon request of IBM Credit, each Customer shall furnish, or cause the plan administrator to furnish, to IBM Credit the most recently filed annual report for each Plan.

7.6. Environmental Matters. (A) Each Customer shall (i) comply with all Environmental Laws in all material respects, and (ii) undertake to use commercially reasonable efforts to prevent any unlawful release of any Hazardous Substance by Customer or such Person into, upon, over or under any property now or hereinafter owned, leased or otherwise controlled (directly or indirectly) by Customers.

(B) Each Customer and each Guarantor shall notify IBM Credit, promptly upon its obtaining knowledge of (i) any non-routine proceeding or investigation by any Governmental Authority with respect to the presence of any Hazardous Substances on or in any property now or hereinafter owned, leased or otherwise controlled (directly or indirectly) by such Customer or such Guarantor, (ii) all claims made or threatened by any Person or Governmental Authority against such Customer or such Guarantor or any of such Customer's or such Guarantor's assets relating to any loss or injury resulting from any Hazardous Substance, (iii) a Customer's discovery of evidence of unlawful disposal of or environmental contamination by any Hazardous Substance on any property now or hereinafter owned, leased or otherwise controlled (directly or indirectly) by such Customer, and (iv) any occurrence or condition which could constitute a violation of any Environmental Law.

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

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

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

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

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

(E) Each Customer shall, and shall cause each of its subsidiaries to, from time to time, do and perform any and all acts and execute any and all instruments, notices and other documents, reasonably required or recommended by IBM Credit to address concerns identified by IBM Credit regarding the Collateral during the course of any audit of each Customer’s, or its subsidiaries’ books and records, or assets.

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

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

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

7.10. Compliance With Laws. Each Customer agrees to comply with all Requirements of Law applicable to the Collateral or any part thereof, or to the operation of its business, except where the failure to comply, individually, or in the aggregate could not reasonably be expected to have a Material Adverse Effect.

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

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

7.13. Collateral. Customers shall:

(A) promptly notify IBM Credit of any loss, theft or destruction of or damage to any of the Collateral in excess of $1,000,000.00. Customers shall diligently file and prosecute its claim for any award or payment in connection with any such loss, theft, destruction of or damage to Collateral. Customers shall, upon demand of IBM Credit, make, execute and deliver any assignments and other instruments sufficient for the purpose of assigning any such award or payment to IBM Credit, free of encumbrances of any kind whatsoever;

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

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

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

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

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

7.16. Joint and Several Guaranty. (A) Each Customer hereby agrees that such customer is jointly and severally liable for, and hereby jointly and severally and unconditionally guarantees to IBM Credit the prompt payment when due and the full, prompt, and faithful performance of any and all Obligations upon which any Customer is in any manner obligated, heretofore, now, or hereafter owned, contracted or acquired by IBM Credit pursuant to this Agreement and the Existing Agreements, whether the same are individual, joint or several, primary, secondary, direct, contingent or otherwise. Each Customer irrevocably subordinates to the full payment of amounts due IBM Credit any and all rights to which it may be entitled, by operation of law or otherwise, upon making any payment hereunder (i) to be subrogated to the rights of IBM Credit against another Customer hereto with respect to such payment or otherwise to be reimbursed, indemnified or exonerated by another Customer in respect thereof, or (ii) to receive any payment, in the nature of contribution or for any other reason, from another Customer hereto with respect to such payment.

(B) Notwithstanding any provision herein to the contrary, the liability of each Customer hereunder shall in no event exceed the maximum amount that is valid and enforceable in any action or proceeding involving any applicable state corporate law or any applicable state or federal bankruptcy, insolvency, reorganization, fraudulent conveyance or other law involving the rights of creditors generally.

(C) This is a continuing guaranty of payment and performance and not of collection. The liability of each Customer hereunder is direct, absolute and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, the release or non perfection of any security thereunder, or any change in any Customer’s financial condition, the insolvency of any Customer, the absence of any action to enforce the Agreement or any Other Document or the waiver or consent by IBM Credit of any of the provisions hereof or thereof or any other action or circumstance which might otherwise constitute a legal or equitable discharge or defense of a surety or a guaranty. Each Customer’s obligation pursuant to this Section 7.17 shall continue for so long as any sums owing to IBM Credit by any Customer remains outstanding and unpaid, unless terminated in the manner provided herein. Each Customer acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between IBM Credit and any other Customer or any other Person creating or reserving any lien, encumbrance or security interest in any property of any other Customer or any other Person as security for any obligation of such Customer.

(D) Each Customer has made an independent investigation of the financial condition of each other Customer and guarantees the Obligations based on that investigation and not upon any representations made by IBM Credit. Each Customer acknowledges that it has access to current and future Customer financial information of each other Customer which will enable such Customer to continuously remain informed of each other Customer’s financial condition. Each Customer also consents to and agrees that the guarantees provided in this Section 7.17 and the Obligations shall not be affected by IBM Credit’s subsequent increases or decreases in the credit line that IBM Credit may grant to any Customer; substitutions, exchanges or releases of all or any part of the Collateral now or hereafter securing any of the Obligations; sales or other dispositions of any or all of the Collateral now or hereafter securing any of the Obligations without demands, advertisement or notice of the time or place of the sales or other dispositions, realizing on the Collateral to the extent IBM Credit, in its sole discretion deems proper.

(E) With respect to the guarantees provided hereunder, each Customer, in its capacity as a guarantor, waives if permitted by applicable law (1) demand, protest and all notices of protest or dishonor, (2) all notices of payment and nonpayment, (3) all notices required by law, (4) any and all defenses, including but not limited to any defense which it may have against any manufacturer, distributor or Authorized Supplier, (5) any and all rights of setoff Customers may have against IBM Credit and (6) all notices of nonpayment at maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guarantees at any time held by IBM Credit on which any Customer may, in any way, be liable and each Customer hereby ratifies and confirms whatever IBM Credit may do in that regard.

(F) Each Loan Party expressly waives all rights it may now or in the future under any statute, or at common law, or at law or in equity, or otherwise, to compel IBM Credit to marshal assets or to proceed in respect of the Obligations guaranteed hereunder against any other Loan Party, any other party or against any security for the payment and performance of the Obligations before proceeding against, or as a condition to proceeding against such Loan Party. It is agreed among the Loan Parties and IBM Credit that the foregoing waivers are the essence of the transaction contemplated by the Agreement and the Other Documents and that but for the provisions of this Section 7.17 and such waivers, IBM Credit would decline to enter into this Agreement.

(G) This guaranty obligation and any and all obligations, liabilities, terms and provisions herein shall survive any and all bankruptcy or insolvency proceedings, actions and/or claims brought by or against any Customer, whether such proceedings, actions and/or claims are federal and/or state.

Section 8. NEGATIVE COVENANTS

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

8.1. Liens. No Customer will, directly or indirectly mortgage, assign, pledge, transfer, create, incur, assume, permit to exist or otherwise permit any Lien or judgment to exist on any of its property, assets, revenues or goods, whether real, personal or mixed, whether now owned or hereafter acquired, except for Permitted Liens.

8.2. Disposition of Assets. No Customer will, directly or indirectly, sell, lease, assign, transfer or otherwise dispose of any assets other than (i) sales of inventory in the ordinary course of business and short term rental of inventory as demonstrations in amounts not material to such Customer, and (ii) voluntary dispositions of individual assets and obsolete or worn out property in the ordinary course of business, provided, that the aggregate book value of all such assets and property so sold or disposed of under this section 8.2 (ii) in any fiscal year shall not exceed 5% of the consolidated assets of the PC Connection as of the beginning of such fiscal year.

8.3. Changes in Customer. (A) No Customer will, without thirty (30) days prior written notice to IBM Credit, change its (i) name, (ii) location (as defined in Article 9 of the UCC), (iii) State of organization, (iv) chief executive office or principal place of business, provided, however, that if such Customer is a registered organization, as defined in Article 9 of the UCC, such Customer may change its chief executive office or principal place of office as provided in Section 7.3 of this Agreement;

(B) No Customer will, without thirty (30) days prior written notice to IBM Credit, change its organization, form of ownership or structure;

(C) No Customer will, without the prior written consent of IBM Credit, directly or indirectly, merge, consolidate, liquidate, dissolve or enter into or engage in any business materially different from that presently being conducted by such Customer.

8.4. Guaranties. No Customer will, directly or indirectly, assume, guaranty, endorse, or otherwise become liable upon the obligations of any other Person except (i) by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, (ii) by the giving of indemnities in connection with the sale of inventory or other asset dispositions permitted hereunder, and (iii) for guaranties in favor of IBM Credit and (iv) other guaranties constituting Permitted Indebtedness.

8.5. Restricted Payments. No Customer will, directly or indirectly: (i) declare or pay any dividend (other than dividends payable solely in common stock of such Customer or membership interest if such Customer is a limited liability company) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of Customer or any warrants, options or rights to purchase any such capital stock, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of such Customer; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations).

8.6. Affiliate/Subsidiary Transactions. No Customer will, directly or indirectly, enter into any transaction with any Affiliate or Subsidiary, including, without limitation, the purchase, sale or exchange of property or the rendering of any service to any Affiliate or Subsidiary of any Customer except in the ordinary course of business and pursuant to the reasonable requirements of such Customer's business upon fair and reasonable terms no less favorable to such Customer than could be obtained in a comparable arm's-length transaction with an unaffiliated Person.

8.7. ERISA. No Customer will (A) terminate any Plan so as to incur a material liability to the PBGC, (B) permit any "prohibited transaction" involving any Plan (other than a "multi-employer benefit plan") which would subject such Customer to a material tax or penalty on "prohibited transactions" under the Code or ERISA, (C) fail to pay to any Plan any contribution which they are obligated to pay under the terms of such Plan, if such failure would result in a material "accumulated funding deficiency", whether or not waived, (D) allow or suffer to exist any occurrence of a "reportable event" or any other event or condition, which presents a material risk of termination by the PBGC of any Plan (other than a "multi-employer benefit plan"), or (E) fail to notify IBM Credit as required in Section 7.5. As used in this Agreement, the terms "accumulated funding deficiency" and "reportable event" shall have the respective meanings assigned to them in ERISA, and the term "prohibited transaction" shall have the meaning assigned to it in the Code and ERISA. For purposes of this Section 8.8, the terms "material liability", "tax", "penalty", "accumulated funding deficiency" and "risk of termination" shall mean a liability, tax, penalty, accumulated funding deficiency or risk of termination which could reasonably be expected to have a Material Adverse Effect.

8.8. Additional Negative Pledges. No Customer will, directly or indirectly, create or otherwise cause or permit to exist or become effective any contractual obligation which may restrict or inhibit IBM Credit's rights or ability to sell or otherwise dispose of the Collateral or any part thereof after the occurrence and during the continuance of an Event of Default.

8.9. Storage of Collateral with Bailees and Warehousemen. Collateral in excess of $500,000.00 shall not be stored with a bailee, warehouseman or similar party without the prior written consent of IBM Credit unless Customer will, concurrently with the delivery of such Collateral to such party, cause such party to (i) enter into an agreement acknowledging that such party holds possession of Collateral (other than certificated securities and goods covered by a document) for the benefit of IBM Credit, or (ii) issue and deliver to IBM Credit, warehouse receipts in the name of IBM Credit evidencing the storage of such Collateral.

8.10. Indebtedness. No Customer will create, incur, assume or permit to exist any Indebtedness, except for Permitted Indebtedness.

8.11. Loans. Customers will not make any loans, advances (excluding advances for the purposes of relocation), contributions or payments of money or goods in excess of $100,000.00 in aggregate outstanding at any one time to any officer or director of any Customer (except for compensation for personal services actually rendered), except for transactions expressly authorized in this Agreement.

Section 9. DEFAULT

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

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

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

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

(D) The occurrence of any event or circumstance which could reasonably be expected to have a Material Adverse Effect on the Loan Parties, taken as a whole;

(E) Other than ComTeq Federal of New Hampshire, Inc. and PC Connection Sales of Massachusetts, any Customer, any Subsidiary or any guarantor shall generally not pay its debts as such debts become due, become or otherwise declare itself insolvent, file a voluntary petition for bankruptcy protection, have filed against it any involuntary bankruptcy petition, cease to do business as a going concern, make any assignment for the benefit of creditors, or a custodian, receiver, trustee, liquidator, administrator or person with similar powers shall be appointed for any Customer, any Subsidiary or any guarantor or any of its respective properties or have any of its respective properties seized or attached, or take any action to authorize, or for the purpose of effectuating, the foregoing, provided, however, that a Customer, any Subsidiary or any guarantor shall have a period of forty-five (45) days within which to discharge any involuntary petition for bankruptcy or similar proceeding;

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

(G) The entry of any judgment against any Customer or any guarantor in an amount in excess of $1,000,000.00 and such judgment is not satisfied, dismissed, stayed or superseded by bond within thirty (30) days after the day of entry thereof (and in the event of a stay or supersedeas bond, such judgment is not discharged within thirty (30) days after termination of any such stay or bond) or such judgment is not fully covered by insurance;

(H) The dissolution or liquidation of any Loan Party, any Subsidiary or any guarantor, or any Loan Party or any guarantor or its directors or stockholders shall take any action to dissolve or liquidate any Loan Party, Subsidiary or any guarantor, other than (i) ComTeq Federal of New Hampshire, Inc. and (ii) a Subsidiary that is not a Loan Party or guarantor to the extent such dissolution or liquidation could not reasonably be expected to have a Material Adverse Effect;

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

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

(K) Any Loan Party suspends business for a period of ten (10) consecutive Business Days;

(L) The occurrence of any event or condition that, with the passage of time or the giving of notice, or both, permits the holder of any Indebtedness owed by any Customer or guarantor (including without limitation PC Connection) in excess of $1,000,000.00 arising in one or more related or unrelated transactions to accelerate the maturity thereof or the failure of any Customer or guarantor to pay when due any such Indebtedness;

(M) Any guaranty of any or all of the Customers’ Obligations executed by any guarantor in favor of IBM Credit, shall at any time for any reason cease to be in full force and effect or shall be declared to be null and void by a court of competent jurisdiction or the validity or enforceability thereof shall be contested or denied by any such guarantor, or any such guarantor shall deny that it has any further liability or obligation thereunder or any such guarantor shall fail to comply with or observe any of the terms, provisions or conditions contained in any such guaranty;

(N) Any Loan Party is in default under the material terms of any of the Other Documents after the expiration of any applicable cure periods;

(O) There shall occur a “reportable event” with respect to any Plan, or any Plan shall be subject to termination proceedings (whether voluntary or involuntary) and there shall result from such “reportable event” or termination proceedings a liability of any Customer to the PBGC which in the reasonable opinion of IBM Credit will have a Material Adverse Effect;

(P) Any “person” (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) acquires a beneficial interest in 50% or more of the Voting Stock of any Customer.

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

9.3. Remedies. (A) Upon the occurrence and during the continuance of any Event of Default which has not been waived in writing by IBM Credit, IBM Credit may exercise all rights and remedies of a secured party under the U.C.C. Without limiting the generality of the foregoing, IBM Credit may through legal process: (i) remove from any premises where same may be located any and all documents, instruments, files and records (including the copying of any computer records), and any receptacles or cabinets containing same, relating to the Collateral, or IBM Credit may use (at the expense of the Customers) such of the supplies or space of Customer at Customer’s place of business or otherwise, as may be necessary to properly administer and control the Collateral or the handling of collections and realizations thereon; and (ii) foreclose the security interests created pursuant to this Agreement by any available judicial procedure, or to take possession of any or all of the Collateral and to enter any premises where any Collateral may be located for the purpose of taking possession of or removing the same.

(B) Upon the occurrence and during the continuance of an Event of Default which has not been waived in writing by IBM Credit, IBM Credit shall have the right to sell, lease, or otherwise dispose of all or any part of the Collateral, whether in its then condition or after further preparation or processing, in the name of any Customer or IBM Credit, or in the name of such other party as IBM Credit may designate, either at public or private sale or at any broker’s board, in lots or in bulk, for cash or for credit, with or without warranties or representations, and upon such other terms and conditions as IBM Credit in a commercially reasonable manner may deem advisable, and IBM Credit shall have the right to purchase at any such sale. Until reduced to cash, IBM Credit shall have no obligation to reduce the Obligations by applying noncash proceeds of the disposition of Collateral. If IBM Credit, in its sole discretion determines that any of the Collateral requires rebuilding, repairing, maintenance or preparation, IBM Credit shall have the right, at its option, to do such of the aforesaid as it deems necessary for the purpose of putting such Collateral in such saleable form as IBM Credit shall deem appropriate. Each Customer hereby agrees that any disposition by IBM Credit of any Collateral pursuant to and in accordance with the terms of a repurchase agreement between IBM Credit and the manufacturer or any supplier (including any Authorized Supplier) of such Collateral constitutes a commercially reasonable sale. The Customer agrees, at the request of IBM Credit, to assemble the Collateral and to make it available to IBM Credit at places which IBM Credit shall select, whether at the premises of the Customer or elsewhere, and to make available to IBM Credit the premises and facilities of a Customer for the purpose of IBM Credit's taking possession of, removing or putting such Collateral in saleable form. If notice of intended disposition of any Collateral is required by law, it is agreed that ten (10) Business Days notice shall constitute reasonable notification.

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

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

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

Section 10. MISCELLANEOUS

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

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

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

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

10.4. LIMITATION OF LIABILITY. NEITHER IBM CREDIT NOR ANY OTHER INDEMNIFIED PERSON SHALL HAVE ANY LIABILITY WITH RESPECT TO ANY SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES SUFFERED BY ANY CUSTOMER IN CONNECTION WITH THIS AGREEMENT, ANY OTHER AGREEMENT, ANY DELAY, OMISSION OR ERROR IN THE ELECTRONIC TRANSMISSION OR RECEIPT OF ANY E-DOCUMENT, OR ANY CLAIMS IN ANY MANNER RELATED THERETO. NOR SHALL IBM CREDIT OR ANY OTHER INDEMNIFIED PERSON HAVE ANY LIABILITY TO ANY CUSTOMER OR ANY OTHER PERSON FOR ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY IT OR THEM HEREUNDER, EXCEPT FOR ITS OR THEIR OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. IN THE EVENT ANY CUSTOMER REQUESTS IBM CREDIT TO EFFECT A WITHDRAWAL OR DEBIT OF FUNDS FROM AN ACCOUNT OF SUCH CUSTOMER, THEN IN NO EVENT SHALL IBM CREDIT BE LIABLE FOR ANY AMOUNT IN EXCESS OF ANY AMOUNT INCORRECTLY DEBITED, EXCEPT IN THE EVENT OF IBM CREDIT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. NO PARTY SHALL BE LIABLE FOR ANY FAILURE TO PERFORM ITS OBLIGATIONS IN CONNECTION WITH ANY E-DOCUMENT, WHERE SUCH FAILURE RESULTS FROM ANY ACT OF GOD OR OTHER CAUSE BEYOND SUCH PARTY'S REASONABLE CONTROL (INCLUDING, WITHOUT LIMITATION, ANY MECHANICAL, ELECTRONIC OR COMMUNICATIONS FAILURE) WHICH PREVENTS SUCH PARTY FROM TRANSMITTING OR RECEIVING E-DOCUMENTS.

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

10.6. Severability. If any provision of this Agreement or the Other Documents or the application thereof to any Person or circumstance is held invalid or unenforceable, the remainder of this Agreement and the Other Documents and the application of such provision to other Persons or circumstances will not be affected thereby, the provisions of this Agreement and the Other Documents being severable in any such instance.

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

10.8. No Merger or Novations. (A) Customers acknowledge and agree that Obligations outstanding as of the date hereof under the Existing Agreements have not been satisfied or discharged and that this Agreement is not intended to effect a novation of the Customers' Obligations under the Existing Agreements. This Agreement shall on the Closing Date amend and restate each of the Existing Agreements in its entirety, and, on the Closing Date, the obligations of Customers evidenced by the Existing Agreements shall be continuing Obligations under this Agreement and shall be evidenced by this Agreement.

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

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

10.10. Binding Effect; Assignment. This Agreement and the Other Documents shall be binding upon and inure to the benefit of IBM Credit and the Customers and their respective successors and assigns; provided, that the Customers shall have no right to assign this Agreement or any of the Other Documents without the prior written consent of IBM Credit. This Agreement is intended solely for the benefit of IBM Credit, each Customer and their permitted successors and assigns. No other person shall receive any benefit or right in or under this Agreement.

10.11. Obligations. The Obligations are joint and several, shall be binding upon each Customer and each Customer's successors and assigns, and will be for IBM Credit's benefit and the benefit of IBM Credit's successors and assigns. The Obligations and any terms and provisions herein may be modified or amended only by a document sign by IBM Credit and each Customer.

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

(i) If to IBM Credit at:

IBM Credit Corporation
1500 RiverEdge Parkway
Atlanta, GA 30328

Attention: Region Manager, _________
Facsimile:

(ii) If to GovConnection, Inc. at:

GovConnection, Inc.
7503 Standish Place
Rockville, MD 20855

Attention: Mr. John Shutt
Facsimile: (301) 340-7402

(iii) If to Merrimack Services Corporation:

Merrimack Services Corporation
730 Milford Road
Merrimack, NH 03054

Attention: Mr. Jack Ferguson
Facsimile: (603) 423-2283

(iv) If to Moredirect, Inc. at:

Moredirect, Inc.
7300 N. Federal Highway, Suite 200
Boca Raton, FL 33487

Attention: Mr. Scott Modist
Facsimile: (509) 357-1319

(v) In the case of (ii), (iii) and (iv) with copy to PC Connection, Inc. at:

PC Connection, Inc.
730 Milford Road
Merrimack, NH 03054

Attention: Mr. Jack Ferguson
Facsimile: (603) 423-2283

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

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

(ii) Each party shall use those security procedures which are reasonably sufficient to ensure that all transmissions of E-Documents are authorized and to protect its business records and data from improper access. Any E-Document received pursuant to this Section 10.13 shall have the same effect as if the contents of the E-Document had been sent in paper rather than electronic form. The conduct of the parties pursuant to this Section 10.13 shall, for all legal purposes, evidence a course of dealing and a course of performance accepted by the parties. The parties agree not to contest the validity or enforceability of E-Documents under the provisions of any applicable law relating to whether certain agreements are to be in writing or signed by the party to be bound thereby. The parties agree, as to any E-Document accompanied by a Customer's ID, that IBM Credit can reasonably rely on the fact that such E-Document is properly authorized by such Customer. E-Documents, if introduced as evidence on paper in any judicial, arbitration, mediation or administrative proceedings, will be admissible as between the parties to the same extent and under the same conditions as other business records originated and maintained in documentary form. No party shall contest the admissibility of copies of E-Documents under either the business records exception to the hearsay rule or the best evidence rule on the basis that the E-Documents were not originated or maintained in documentary form.

CUSTOMER RECIPIENT INFORMATION for Internet transmissions:

(PLEASE PRINT)
Name of Customers' Designated Central Contacts Authorized to Receive IDs and Passwords:

Mr. John Shutt for GovConnection
e-mail Address: jshutt@govconnection.com
Phone Number: (301) 340-1100

Mr. Jack Ferguson for Merrimack
e-mail Address: jferguson@pcconnection.com
Phone Number: (603) 423-2156

Mr. Scott Modist for MoreDirect
e-mail Address: smodist@moredirect.com
Phone Number: (561) 237-3341

Mr. Jack Ferguson for PC Connection
e-mail Address: Jferguson@pcconnection.com
Phone Number: (603) 423-2156

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

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

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

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

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

(C) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO CUSTOMERS AT THEIR RESPECTIVE ADDRESSES SET

FORTH IN SECTION 10.13 OR AT SUCH OTHER ADDRESS OF WHICH IBM CREDIT SHALL HAVE BEEN NOTIFIED PURSUANT THERETO;

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

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

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

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

PC Connection, Inc.

By: /s/ Mark Gavin

Print Name: Mark Gavin

Title: CFO

MoreDirect, Inc.

By: /s/ Scott Modist

Print Name: Scott Modist

Title: CFO

Merrimack Services Corporation

By: /s/ Jack L. Ferguson

Print Name: Jack L. Ferguson

Title: Treasurer

GovConnection, Inc.

By: /s/ Gary Sorkin

Print Name: Gary Sorkin

Title: President

IBM Credit Corporation

By: /s/ Sal Grasso

Print Name: Sal Grasso

Title: Mgr. Credit

Attachment A ("Attachment A") TO
AGREEMENT FOR INVENTORY FINANCING

DATED October 31, 2002

EFFECTIVE DATE OF THIS ATTACHMENT A: October 31, 2002

Section 1: LOAN PARTIES:

NAME:	ORGANIZATION NO. (Assigned by State of Org)
PC Connection, Inc.	Delaware File Number 3149279
Merrimack Services Corporation	Delaware File Number 3149077
GovConnection, Inc.	Maryland ID Number 03712387
MoreDirect, Inc.	Florida File Number P9400072462

Section 2: FEES, RATES AND REPAYMENT TERMS:

(A) Credit Line: Twenty-five Million Dollars ($25,000,000.00);

(B) Borrowing Base:

(i) 100% of the Customer's inventory in the Customer's possession as of the date of determination as reflected in the Customer's most recent Collateral Management Report constituting Products (other than service parts) financed through a Product Advance by IBM Credit, so long as (i) IBM Credit has a first priority security interest in such Products; (ii) such Products are in new and unopened boxes, and (iii) the invoice date reflecting the sale of such Products by Authorized Supplier is not greater than one hundred eighty (180) days prior to the date of determination. The value to be assigned to such inventory shall be based upon the Authorized Supplier's invoice price to Customer for Products net of all applicable price reduction credits.

(C) Inventory Insurance Amount: Twenty-five Million Dollars ($25,000,000.00)

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

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

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

Section 3: FINANCIAL COVENANTS:

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

“Consolidated EBIT” shall mean for any period the sum of (a) Consolidated Net Income and (b) all amounts deducted in computing Consolidated Net Income in respect of (i) interest expense on Indebtedness and (ii) taxes based on or measured by income, in each case for the period under review.

“Consolidated EBITDA” shall mean the sum of (a) Consolidated EBIT, plus (b) the aggregate amount of consolidated depreciation and amortization expense plus (c) non-cash extraordinary or non-recurring losses less (d) extraordinary or non-recurring gains.

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

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

“Current” shall mean within the ongoing twelve month period.

“Current Assets” shall mean assets that are cash or expected to be expensed or become cash within the ongoing twelve months.

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

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

“Funded Debt Ratio”: shall mean, with respect to any fiscal quarter, the ratio of (a) the average daily outstanding Advances over such fiscal quarter under the Amended and Restated Credit and Security Agreement dated May 31, 2002 by and among PC Connection and its subsidiaries, inc. and Citizens Bank of Massachusetts and the other parties thereto to (b) the rolling four fiscal quarter Consolidated EBITDA (including such fiscal quarter) of Customers.

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

“Long Term” shall mean beyond the ongoing twelve month period.

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

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

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

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

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

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

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

"Working Capital" shall mean Current Assets minus Current Liabilities.

(B) PC Connection will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review by IBM Credit:

Minimum Consolidated Net Worth: Maintain a minimum Consolidated Net Worth of (i) $125,000,000 plus (ii) on a cumulative basis, an amount equal to fifty percent (50%) of the Consolidated Net Income in each quarter thereafter, commencing with the fiscal quarter ended March 31, 2002.

Maximum Funded Debt Ratio: Maintain a Funded Debt Ratio of not greater than 2.0:1.0.

Section 4: ADDITIONAL CONDITIONS PRECEDENT PURSUANT TO SECTION 5.1H OF THE AGREEMENT:

(i) Executed Collateralized Guaranty of PC Connection Sales Corporation on behalf of the Customers

(ii) Executed Collateralized Guaranty of PC Connection, Inc. on behalf of the Customers;

(iii) Executed Waiver of Landlord Lien for all premises in which a landlord has the right of levy for rent;

(iv) Fiscal year-end consolidated financial statements of PC Connection together with the consolidated financial statements as of end of PC Connection's prior fiscal year audited by an independent certified public accountant;

(v) Compiled fiscal quarter-end consolidated financial statements of PC Connection as of end of PC Connection's prior fiscal quarter;

(vi) A Certificate of Location of Collateral whereby the Customers certify where Customers presently keep or sell Collateral;

(vii) Subordination or Intercreditor Agreements from all creditors having a lien which is superior to IBM Credit in any assets that IBM Credit relies on to satisfy the Loan Party's obligations to IBM Credit;

(viii) A Collateral Management Report in the form of Attachment E as of the most recent scheduled report date;

(ix) A Compliance Certificate in the form of 1.1(A)(i) Attachment C as to PC Connection's compliance with the financial covenants set forth in Attachment A as of the last fiscal quarter of PC Connection for which financial statements have been published;

(x) A Corporate Secretary's Certificate substantially in the form and substance of Attachment G certifying to, among other items, the resolutions of the Loan Party's Board of Directors authorizing borrowing by each Loan Party;

(xi) Termination or release of Uniform Commercial Code filing by another creditor as required by IBM Credit;

(xii) A copy of an all-risk insurance certificate pursuant to Section 7.8(A) of the Agreement;

Attachment B (“Attachment B”) TO
AGREEMENT FOR INVENTORY FINANCING

Loan Party: **PC Connection, Inc.**

Section 1: Liens: Citizens Bank of Massachusetts (1st Broad)

Section 2: Locations of Offices, Records and Inventory:

(A) Principal Place of Business and Chief Executive Office:

730 Milford Road
Merrimack, NH 03054

(B) Locations of Inventory (including warehouses):

Location	Leased (Y/N)
No inventory	

Section 3: Fictitious Names: None

Section 4: Organization:

(A) Direct Subsidiaries

Name	State of Organization	Chief Executive Offices	% Owned
PC Connection Sales Corporation	DE	730 Milford Road Merrimack, NH 03054	100%
Merrimack Services Corporation	DE	730 Milford Road Merrimack, NH 03054	100%
GovConnection, Inc.	MD	7503 Standish Place Rockville, MD 20855	100%
MoreDirect, Inc.	FL	7300 North Federal Hwy Boca Raton, FL 33487	100%

(B) Affiliates:

Note: Disclosures here have been limited to entities that have related party transactions with PC Connection or its subsidiaries. Directors and officers of PC Connection and subsidiaries and other investments of its two founding shareholders are not included here.

Name	State of Organization	Chief Executive Offices	Capacity
G&H Post, LLC	New Hampshire	730 Milford Road Merrimack, NH 03054	Lessor of PCC headquarters (common ownership by PCC founding shareholders)

Gallup & Hall (partnership)	New Hampshire	730 Milford Road Merrimack, NH 03054	Lessor of certain facilities leased by PCC subsidiaries (common ownership by PCC founding shareholders)
PCTV, Inc.	New Hampshire	322 North Main Newport, NH 03773	Provider of certain video services (common ownership by PCC founding shareholders)
EN Technologies, Inc.	New Hampshire	322 North Main Newport, NH 03773	Provider of certain development services (common ownership by PCC founding shareholders)

Section 5: Judgments or Litigation:

a) No judgements outstanding

b) Litigation described in the 2001 10-K filed by the Company against Sun Life Assurance of Canada for non-payment of aggregate medical claims

c) Litigation described in the 2001 10-K filed by Lemelson Medical, Education & Research Foundation against PC Connection and 87 other defendents pertaining to bar code scanner patents. Litigation has been stayed pending outcome of separate litigation with bar code scanner manufacturers.

Section 6: Environmental Matters: None

Section 7: Indebtedness:

a) Contingent “earnout” obligations relating to acquisition of MoreDirect, Inc., and a $10 million escrow cash balance to be used to pay a portion of obligation

b) Capital lease on 730 Milford Road facility and other capital leases and purchase money obligations provided the maximum aggregate amounts outstanding shall not exceed $15 million

c) Indebtedness to Citizens Bank of Massachusetts and others under the Credit and Security Agreement

d) Obligations to former Comteq shareholders on acquisition of Comteq Federal, Inc. (renamed GovConnection, Inc.)

e) Guarantees of vendor and lessor payables of subsidiaries

f) Guarantees to floor plan lenders under floor plan lending agreements with Merrimack Services Corporation, GovConnection, Inc. and MoreDirect, inc. Floor plan lenders include IBM Credit, Deutsche Financial Services.

g) Guarantee to GE Capital of the performance of GovConnection under a contract dated April 30, 2002, which provides for a sale and delivery of certain computer products to GE Capital for lease to the GAO and includes a requirement for GovConnection to provide for insurance on such products for the term of the lease

h) Recurring intercompany indebtedness resulting from intercompany sales and services

Customer: **Merrimack Services Corporation**

Section 1: Liens: Citizens Bank of Massachusetts (1st Broad)
Deutsche Financial Services (certain inventory, limited)

Section 2: Locations of Offices, Records and Inventory:

(A) Principal Place of Business and Chief Executive Office:

730 Milford Road
Merrimack, NH 03054

(B) Locations of Inventory (including warehouses):

Location	Leased (Y/N)
2870 Old State Route 73, Wilmington, OH	Y
2841 Old State Route 73, Wilmington, OH	Y
10 Optical Avenue, Keene, NH	Y

Section 3: Fictitious Names:

PC Connection Services

Section 4: Organization:

(A) Subsidiaries: None

(B) Affiliates:

Note: Disclosures here have been limited to entities that have related party transactions with PC Connection or its subsidiaries. Directors and officers of PC Connection and subsidiaries and other investments of its two founding shareholders are not included here.

Name	State of Organization	Chief Executive Offices	Capacity
PC Connection Sales Corporation	DE	730 Milford Road Merrimack, NH 03054	Commonly owned by PC Connection
GovConnection, Inc.	MD	7503 Standish Place Rockville, MD 20855	Commonly owned by PC Connection
MoreDirect, Inc.	FL	7300 North Federal Hwy Boca Raton, FL 33487	Commonly owned by PC Connection

Section 5: Judgments or Litigation:

a) No judgements outstanding

b) No pending litigation or claims

Section 6: Environmental Matters: None

Section 7: Indebtedness:

a) Equipment leases (capital) from time to time with IBM Credit, Mellon US Leasing and others

b) Guarantee of PC Connection's obligations to its senior lender

c) Inventory financing agreements with IBM Credit and Deutsche Financial Services

d) Recurring intercompany indebtedness resulting from intercompany sales and services

e) Guarantees of lessor and vendor payables of parent and/or other subsidiaries

Customer: **GovConnection, Inc**.

Section 1: Liens: Citizens Bank of Massachusetts (1st Broad)
Deutsche Financial Services (certain inventory, limited)

Section 2: Locations of Offices, Records and Inventory:

(A) Principal Place of Business and Chief Executive Office:

7503 Standish Place
Rockville, MD 20855

(B) Locations of Inventory (including warehouses):

Location	Leased (Y/N)
(no inventory on hand)	

Section 3: Fictitious Names:

Comteq Federal

PC Connection Federal

Section 4: Organization:

(A) Subsidiaries:

Name	State of Organization	Chief Executive Offices	% Owned
Comteq Federal of New Hampshire, Inc. (dormant)	DE	706 Milford Road Merrimack, NH 03054	100%

(B) Affiliates:

Note: Disclosures here have been limited to entities that have related party transactions with PC Connection or its subsidiaries. Directors and officers of PC Connection and subsidiaries and other investments of its two founding shareholders are not included here.

Name	State of Organization	Chief Executive Offices	Capacity
PC Connection Sales Corporation	DE	730 Milford Road Merrimack, NH 03054	Commonly owned by PC Connection
Merrimack Services Corporation	DE	730 Milford Road Merrimack, NH 03054	Commonly owned by PC Connection
MoreDirect, Inc.	FL	7300 North Fed Hwy Boca Raton, FL 33487	Commonly owned by PC Connection

Section 5: Judgments or Litigation:

a) No judgements outstanding

b) No pending litigation or claims

Section 6: Environmental Matters: None

Section 7: Indebtedness:

A. Guarantee of PC Connection with respect to its senior lender

B Inventory financing agreements with IBM Credit and Deutsche Financial Services

C. Intercompany indebtedness resulting from recurring intercompany sales and services

D. Guarantees of lessor and vendor payables of parent and/or other subsidiaries

Customer: **MoreDirect, Inc.**

Section 1: Liens: Citizens Bank of Massachusetts (1st Broad)
Deutsche Financial Services (certain inventory, limited)

Section 2: Locations of Offices, Records and Inventory:

(A) Principal Place of Business and Chief Executive Office:

7300 North Federal Highway, Suite 200
Boca Raton, FL 33487

(B) Locations of Inventory (including warehouses):

Location	Leased (Y/N)
(no inventory on hand currently – all recorded inventory currently in transit or temporarily in staging areas at customers or distributors)	
Beginning approx Jan 1, 2003:	
2870 Old State Route 73, Wilmington, OH	Y
2841 Old State Route 73, Wilmington, OH	Y

Section 3: Fictitious Names:

MoreDirect.com, Inc.
Corporate Buying Services

Section 4: Organization:

(A) Subsidiaries:

Name	State of Organization	Chief Executive Offices	% Owned
None			

(B) Affiliates:

Note: Disclosures here have been limited to entities that have related party transactions with PC Connection or its subsidiaries. Directors and officers of PC Connection and subsidiaries and other investments of its two founding shareholders are not included here.

Name	State of Organization	Chief Executive Offices	Capacity
PC Connection Sales Corporation	DE	730 Milford Road Merrimack, NH 03054	Commonly owned by PC Connection
Merrimack Services Corporation	DE	730 Milford Road Merrimack, NH 03054	Commonly owned by PC Connection
GovConnection, Inc.	MD	7503 Standish Place Rockville, MD 20855`	Commonly owned by PC Connection

Section 5: Judgments or Litigation:

a) No judgements outstanding

b) No pending litigation or claims

Section 6: Environmental Matters: None

Section 7: Indebtedness:

A. Guarantee of PC Connection with respect to its senior lender

B. Inventory financing agreements with IBM Credit and Deutsche Financial Services

C. Intercompany indebtedness resulting from recurring intercompany sales and services

D. Guarantees of lessor and vendor payables of parent and/or other subsidiaries

Attachment C (“Attachment C”) TO
AGREEMENT FOR INVENTORY FINANCING

COMPLIANCE CERTIFICATE

Loan Parties must submit to IBM Credit Compliance Certificates as required pursuant to that certain Credit Agreement dated May 31, 2002 by and between PC Connection, Inc. and Citizen’s Bank of Massachusetts

(see attached)

PC Connection, Inc.

730 Milford Road
Merrimack, NH 03054-4631
Main: 603/683-2000
www.pcconnection.com

COMPLIANCE CERTIFICATE

Citizens Bank of Massachusetts, as Agent
28 State Street
13th Floor
Boston, MA 02109
Attention: Michael S. St. Jean

Re: PC Connection, Inc.

Ladies and Gentlemen:

Pursuant to the provisions of Article 9.7(e) of that certain Amended and Restated Credit and Security Agreement dated as of May 31, 2002 (the “Loan Agreement”) by and among PC Connection Inc., a corporation organized under the laws of the State of Delaware (the “Borrower”), ComTeq Federal of New Hampshire, Inc., a corporation organized under the laws of the State of Delaware, GovConnection, Inc., a corporation organized under the laws of the State of Maryland, Merrimack Services Corporation, a corporation organized under the laws of the State of Delaware, PC Connection Sales Corporation, a corporation organized under the laws of the State of Delaware, PC Connection Sales of Massachusetts, Inc., a corporation organized under the laws of the State of Delaware, MoreDirect, Inc., a corporation organized under the laws of the State of Florida (each a “Guarantor” and collectively the “Guarantors” or “Subsidiaries”), the financial institutions which are now or which hereafter become a party hereto (collectively, the “Lenders” and individually a “Lender”) and Citizens Bank of Massachusetts (“Citizens”), as agent for Lenders (Citizens, in such capacity, the “Agent”), the undersigned, in his capacity as an officer of the Borrower, hereby certifies as follows:

(A) (1) The representations and warranties contained in Article V of the Loan Agreement are true and correct on and as of the date hereof as if made on and as of such date (except as to transactions permitted by the Agreement and except that the references in Section 5.5 of the Loan Agreement to the financial statements of the Borrowers and each of its Subsidiaries are deemed to refer to the most recent annual financial statements (inclusive of balance sheets and statements of income, retained earnings and changes in financial position of the Borrowers) furnished to the Agent pursuant to Section 5.5 and 8.1(k) of the Loan Agreement), except: *no exceptions*

(2) Since the end of the last fiscal quarter of the Borrower and its Subsidiaries, neither the business nor assets nor the condition, financial or otherwise, of the Borrower or any of its Subsidiaries has been adversely affected in any material manner except: *no exceptions*

(3) Except as set forth in the certificates attached hereto and except as heretofore disclosed to the Agent in a previous Compliance Certificate, there has been no change (i) in the charter documents or operating agreement of the Borrower and each of its Subsidiaries, as applicable, heretofore certified to the Agent, or (ii) in the incumbency of the officers of the Borrower and each of its Subsidiaries whose signatures have heretofore been certified to the Agent;

(4) The financial statements submitted herewith have been prepared in accordance with generally accepted accounting principles of the United States consistent with those applied in the preparation of the most recent annual financial statements furnished to the Agent pursuant to Section 5.5 of the Loan Agreement, present fairly the information contained therein and the financial condition and the results of operations of the Borrower and each of its Subsidiaries, on a consolidated basis, as of the date of such financial statements, and are correct in all material respects, subject in the case of statements furnished under Section 9.8 to normal year-end adjustments and the absence of certain footnotes required under generally accepted accounting principles of the United States; and

(5) The undersigned has caused the provisions of the Loan Agreement to be reviewed and there is no Event of Default thereunder, and no condition which, with the passage of time or giving of notice or both, would constitute an Event of Default thereunder, other than as set forth below: *no exceptions*

(B) Attached hereto as Schedule A are calculations demonstrating that, based upon the financial statements of the Borrower and its Subsidiaries submitted herewith, the Borrower and each of its Subsidiaries are in compliance with the financial covenants set forth in Sections 6.5 and 6.6 of the Loan Agreement.

Terms defined in the Loan Agreement and not otherwise expressly defined herein are used herein with the meanings so defined in the Loan Agreement.

In witness whereof, the undersigned has executed this Compliance Certificate on this 30th day of October, 2002.

PC CONNECTION, INC.

By: /s/ Mark A. Gavin

Name: Mark A. Gavin
Title: Chief Financial Officer

* Must be signed by the president, chief executive officer or chief financial officer of the Borrower.

SCHEDULE A
COMPLIANCE CERTIFICATE

Financial Covenant Compliance Computations as of September 30,2002

Funded Debt Ratio

Required: Not more than 2.0:1.0

Actual:

1.	Average Outstanding Advances *(in $000s)*	$ 428	*(for Quarter ended September 30, 2002)*
2.	Consolidated EBITDA (in $000s) (Restated – See Note)	$ 14,233	*(for four quarters ended September 30, 2002)*
3.	Line 1 : Line 2	0.0301	

Minimum Consolidated Net Worth *(in thousands of dollars)*

Required:

1.	$125,000	$ 125,000
2.	50% of Consolidated Net Income of quarter ended March 31, 2002 (Restated – See Note)	(loss – not deducted)
3.	50% of Consolidated Net Income of Quarter ended June 30, 2002 (Restated – See Note)	139
4.	50% of Consolidated Net Income of Quarter Ended September 30, 2002	1,103
5.	Sum of Lines 1 through 4	$ 126,242

Actual:

1.	Total assets	$ 282,570
2.	Total liabilities	135,610
3.	Line 1 minus Line 2	$ 146,960

Note:

Subsequent to the issuance of the Company’s consolidated financial statements for the quarter ended June 30, 2002, the Company’s management determined that it should have recorded revenue at the time of delivery to customers rather than upon shipment under Staff Accounting Bulletin No. 101 “Revenue Recognition in Financial Statements” (“SAB 101”). The Company implemented SAB 101, effective January 1, 1999 and, consistent with its historical practice, continued to record revenue at the time of shipment, concurrent with the passage of title under the Company’s documentation with its customers. Historically, however, the Company generally covered customer losses and damage to shipments in-transit. The Company established reserves each quarter to cover estimated losses and damages to in-transit goods which were included in SG&A expense. The Company recently learned of an SEC Staff interpretation of SAB 101 indicating that companies generally covering customer losses and damage to shipments in transit should record revenue at the time of delivery (the “de facto” passage of title) rather than upon shipment.

Although the effects of recording revenue at time of delivery, rather than at time of shipment, are not material to any prior fiscal year or quarter, if the Company had made a cumulative retroactive adjustment in the quarter ended September 30, 2002 it would have decreased results of operations by $.02 per share and this, therefore, would have been considered material. Accordingly, the Company will amend its annual report on Form 10-K for the year ended December 31, 2001 and its reports on Form 10-Q for the periods ended March 31, 2002 and June 30, 2002 for this change in revenue recognition practice. All prior quarter figures contained herein reflect this change.

Attachment D ("Attachment D") TO
AGREEMENT FOR INVENTORY FINANCING

Customers: **Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc.**

AUTHORIZED SUPPLIERS

International Business Machines Corporation
Lexmark International
Ingram Micro Inc.*
Tech Data Corporation*
Synnex Corporation*
PC Wholesale*
Resilien*
Seneca Data*

* with respect to the Products of International Business Machines Corporation and Lexmark International only

Attachment E ("Attachment E") TO
AGREEMENT FOR INVENTORY FINANCING

Customer (Legal Name) **Merrimack Services Corporation,**
GovConnection, Inc., MoreDirect, Inc.
Collateral Management Report (CMR)
Accounts as of: October 31, 2002 (Date)

COLLATERAL STATUS:

		Other Values	Gross Collateral	Advance %	Net Collateral
1.	Inventory Collateral:				
	a) IBM Credit Financed Eligible Inventory		**$ 3,898,782**	100%	$ 3,898,782
	b) __________		**$ 0**	XX%	$ 0
	c) __________		**$ 0**	XX%	$ 0
2.	Other Collateral:				
	a) __________		**$ 0**	XX%	$ 0
	b) __________		**$ 0**	XX%	$ 0
	c) __________		**$ 0**	XX%	$ 0
	d) __________		**$ 0**	XX%	$ 0
3.	Total Net Eligible Collateral (1+2)				$ 3,898,782

LOAN STATUS:

			Net Balance
1.	Net IBM Credit Outstandings		$ 6,468,675
	[1a)-[b)+c)+d)+e)+f)+g)+h)]+i)]		
	a) Gross IBM Credit Outstandings (RFS):	$ 7,983,505	
	Less:		
	b) Suspense	$ (212,125)	
	c) Disputes	$ (10,913)	
	d) In Transit (up to 4 Days)	$ (1,128,828)	
	e) Other (O/S credits from IBM)	$ (162,964)	
	f) __________	$ 0	
	g) __________	$ 0	
	h) __________	$ 0	
	Plus:		
	i) Product Received Not Billed (RNB)	$ 0,000,000	
2.	Loan Balance [Line 1]	$ 6,468,675	
3.	Collateral Excess / (Shortfall):		$ (2,569,893)
	[Collateral Line 3 - Loan Line 2]		
	(Loan balance available)		
4.	Loan payments made in early November:		
	a) Nov 4 – Merrimack Services	$ 2,183,677	
	b) Nov 4 – MoreDirect	$ 449,672	
	c) Nov 8 – Merrimack Services (accelerated)	$ 1,000,050	
	A. TOTAL		$ 3,633,399
5.	Remaining Credit Line Availability		$ 1,063,506
	(Loan Line 3 + Loan Line 4)		

Signatures:

/s/ Jack Ferguson

Authorized Customer Signature (Date)

The above officer or delegated individual of Customer certifies that he or she is authorized to provide this information on behalf of Customer and agrees that to the best of his or her knowledge the information is accurate.

Attachment F (“Attachment F”) TO
AGREEMENT FOR INVENTORY FINANCING

CERTIFICATE OF LOCATION OF COLLATERAL

The undersigned, the Treasurer (insert title of office held) of **PC Connection, Inc.** (“Loan Party”), hereby certifies with reference to the Agreement for Inventory Financing dated October 31, 2002, between Loan Parties and IBM Credit Corporation as follows:

The following are all the locations where the Loan Parties presently keep or sell Collateral:

LOCATION	LEASE (YES/NO)
2870 Old State Route 73, Wilmington, OH	Y
2841 Old State Route 73, Wilmington, OH	Y
10 Optical Avenue, Keene, NH	Y

(NOTE: Inventory may also be temporarily stored with distributors and customers in connection with staged shipments to customers. Such inventory is not expected to be in excess of $500,000 and will not be included in the calculation of eligible Collateral for purposes of determining loan availability.

IN WITNESS WHEREOF, I have hereunto set my hand this day of October 31, 2002 .

PC Connection, Inc.

By: /s/ Jack L Ferguson

Print Name: Jack L Ferguson
Title: Treasurer

Attachment G (“Attachment G”) TO
AGREEMENT FOR INVENTORY FINANCING

CORPORATE SECRETARY’S CERTIFICATE AS TO RESOLUTIONS
AUTHORIZING BORROWING BY CORPORATION

IBM CREDIT CORPORATION
1500 RiverEdge Parkway
Atlanta, GA 30328

I, /s/ Steven Markiewicz certify that I am the Secretary of **Merrimack Services Corporation** (“Customer”) and that I am custodian of the Customer’s organizational books and records, including the minutes of the meetings of the Customer’s Board of Directors. I further certify as follows:

1. Customer is duly organized under the laws of the State of Delaware, and has its principal place of business at 730 Milford Road, Merrimack, NH 03054.

2. Customer is registered to conduct business or as otherwise required in the following states and localities: New Hampshire, Ohio

3. True and complete copies of the Customer’s Articles of Incorporation and By-laws (“Governing Documents”) are delivered herewith, together with all amendments and addenda thereto as in effect on the date hereof.

4. The following is a true, accurate and compared copy of a Resolution (the “Resolution”) adopted by the Customer’s Board of Directors at a special meeting thereof held on due notice at which there was present a quorum authorized to adopt the Resolution and the entire proceedings of which were proper and in accordance with the Customer’s Governing Documents. The Resolution was duly made, seconded and unanimously adopted, remains in full force and effect and has not been revoked, annulled, amended or modified in any manner whatsoever, and each authorization and empowerment contained in the Resolution is permitted and proper under the Customer’s Governing Documents:

“Resolved, that:

(a) Each executive or managing officer and agent of the Company (each an “Authorized Person”) is and shall be authorized and empowered, separately or collectively, to obtain financing from IBM Credit Corporation, a Delaware corporation (“IBM Credit”) on behalf of the Company, from time to time, in amounts and upon terms and conditions as such Authorized Person deems proper, and for that purpose: (1) to execute notes, financing statements and other evidences of the Company’s indebtedness with respect thereto; (2) to enter into financing agreements, loan agreements, security agreements, pledge agreements and any other agreements with IBM Credit and third parties relating to the terms and conditions upon which any such financing may be obtained and to the security to be furnished by the Company thereof; (3) to enter into, as lessor or lessee, or to assign or sell any interest Company may have in, any lease or similar rental agreement; (4) to modify, supplement or amend any such agreements, any such terms or conditions in such agreements and any such security therefor; (5) to grant powers of attorney, (6) to pledge, assign, guarantee, mortgage, consign, grant security interest in and otherwise transfer to IBM Credit as collateral security for any and all debts and obligations of the Company to IBM Credit or its affiliates, whenever and however arising, any assets of this Company; (7) to execute and deliver any and all assignments, schedules, transfers, endorsements, contracts, guarantees, agreements, designations, consignments, deeds of trust, mortgages, instruments of pledge or other instruments in respect thereof and to make

remittances and payments in respect thereof by checks, drafts or otherwise; and (8) to do and perform all other acts and things deemed by such Authorized Person to be necessary, convenient or proper to carry out any of the foregoing.

(b) The authorization contained herein shall apply whether or not proceeds of any loans or advances made at the request of any Authorized Person shall be paid or credited by IBM Credit to the Company or shall be paid or credited to the individual order of any affiliates of the Company or other third party, and IBM Credit shall be under no obligation to inquire as to the application or disposition of the proceeds of any such loan or advance.

(c) Hereby ratified, approved, confirmed and consented to are all that any Authorized Person has done or may do in the premises."

5. Appearing below are the names, titles and specimen signatures of at least three Authorized Persons, as defined in the Resolution cited in the preceding paragraph, (list at least three such Authorized Persons):

Authorized Person(s) (print)	**Title (print)**	**Signature**
Mark A. Gavin	CFO	/s/ Mark Gavin
Jack L. Ferguson	Treasurer	/s/ Jack Ferguson
Stephen A. Baldridge	VP Finance & Controller	/s/ Stephen Baldridge

The foregoing is not intended to be a comprehensive or exclusive list of the Customer's Authorized Persons. Upon request, Customer will promptly provide to IBM Credit additional certificates containing the name, title and specimen signature of other Authorized Persons, and IBM Credit may now and in the future rely on the signature of any Authorized Person whether or not listed on this or any other certificate or on the signature page(s) hereof. Nevertheless, it is hereby certified that each name, title and signature appearing above or on the signature page(s) hereof, is consistent with the books and records of the Customer.

IN WITNESS WHEREOF, I have signed this certificate this 1st day of November 2002.

/s/ Steven Markiewicz

Name: Steven Markiewicz

Attachment G (“Attachment G”) TO
AGREEMENT FOR INVENTORY FINANCING

CORPORATE SECRETARY’S CERTIFICATE AS TO RESOLUTIONS
AUTHORIZING BORROWING BY CORPORATION

IBM CREDIT CORPORATION
1500 RiverEdge Parkway
Atlanta, GA 30328

I, /s/ Steven Markiewicz certify that I am the Secretary of **GovConnection, Inc.** (“Customer”) and that I am custodian of the Customer’s organizational books and records, including the minutes of the meetings of the Customer’s Board of Directors. I further certify as follows:

1. Customer is duly organized under the laws of the State of Maryland, and has its principal place of business at 7503 Standish Place, Rockville, MD 20855.

2. Customer is registered to conduct business or as otherwise required in the following states and localities: Maryland, New Hampshire, Ohio, six other states

3. True and complete copies of the Customer’s Articles of Incorporation and By-laws (“Governing Documents”) are delivered herewith, together with all amendments and addenda thereto as in effect on the date hereof.

4. The following is a true, accurate and compared copy of a Resolution (the “Resolution”) adopted by the Customer’s Board of Directors at a special meeting thereof held on due notice at which there was present a quorum authorized to adopt the Resolution and the entire proceedings of which were proper and in accordance with the Customer’s Governing Documents. The Resolution was duly made, seconded and unanimously adopted, remains in full force and effect and has not been revoked, annulled, amended or modified in any manner whatsoever, and each authorization and empowerment contained in the Resolution is permitted and proper under the Customer’s Governing Documents:

“Resolved, that:

(a) Each executive or managing officer and agent of the Company (each an “Authorized Person”) is and shall be authorized and empowered, separately or collectively, to obtain financing from IBM Credit Corporation, a Delaware corporation (“IBM Credit”) on behalf of the Company, from time to time, in amounts and upon terms and conditions as such Authorized Person deems proper, and for that purpose: (1) to execute notes, financing statements and other evidences of the Company’s indebtedness with respect thereto; (2) to enter into financing agreements, loan agreements, security agreements, pledge agreements and any other agreements with IBM Credit and third parties relating to the terms and conditions upon which any such financing may be obtained and to the security to be furnished by the Company thereof; (3) to enter into, as lessor or lessee, or to assign or sell any interest Company may have in, any lease or similar rental agreement; (4) to modify, supplement or amend any such agreements, any such terms or conditions in such agreements and any such security therefor; (5) to grant powers of attorney, (6) to pledge, assign, guarantee, mortgage, consign, grant security interest in and otherwise transfer to IBM Credit as collateral security for any and all debts and obligations of the Company to IBM Credit or its affiliates, whenever and however arising, any assets of this Company; (7) to execute and deliver any and all assignments, schedules, transfers, endorsements, contracts, guarantees, agreements, designations, consignments, deeds of trust, mortgages, instruments of pledge or other instruments in respect thereof and to make

remittances and payments in respect thereof by checks, drafts or otherwise; and (8) to do and perform all other acts and things deemed by such Authorized Person to be necessary, convenient or proper to carry out any of the foregoing.

(b) The authorization contained herein shall apply whether or not proceeds of any loans or advances made at the request of any Authorized Person shall be paid or credited by IBM Credit to the Company or shall be paid or credited to the individual order of any affiliates of the Company or other third party, and IBM Credit shall be under no obligation to inquire as to the application or disposition of the proceeds of any such loan or advance.

(c) Hereby ratified, approved, confirmed and consented to are all that any Authorized Person has done or may do in the premises."

5. Appearing below are the names, titles and specimen signatures of at least three Authorized Persons, as defined in the Resolution cited in the preceding paragraph, (list at least three such Authorized Persons):

Authorized Person(s) (print)	**Title (print)**	**Signature**
Gary Sorkin	President & Treasurer	/s/ Gary Sorkin
Edward Nemeroff	Vice President	/s/ Edward Nemeroff
Stanley Weintraub	Vice President	/s/ Stanley Weintraub

The foregoing is not intended to be a comprehensive or exclusive list of the Customer's Authorized Persons. Upon request, Customer will promptly provide to IBM Credit additional certificates containing the name, title and specimen signature of other Authorized Persons, and IBM Credit may now and in the future rely on the signature of any Authorized Person whether or not listed on this or any other certificate or on the signature page(s) hereof. Nevertheless, it is hereby certified that each name, title and signature appearing above or on the signature page(s) hereof, is consistent with the books and records of the Customer.

IN WITNESS WHEREOF, I have signed this certificate this 1st day of November 2002.

/s/ Steven Markiewicz

Name: Steven Markiewicz

Attachment G(“Attachment G”) TO
AGREEMENT FOR INVENTORY FINANCING

CORPORATE SECRETARY’S CERTIFICATE AS TO RESOLUTIONS
AUTHORIZING BORROWING BY CORPORATION

IBM CREDIT CORPORATION
1500 RiverEdge Parkway
Atlanta, GA 30328

I, /s/ Steven Markiewicz certify that I am the Secretary of **MoreDirect, Inc.** (“Customer”) and that I am custodian of the Customer’s organizational books and records, including the minutes of the meetings of the Customer’s Board of Directors. I further certify as follows:

1. Customer is duly organized under the laws of the State of Florida, and has its principal place of business at 7300 North Federal Highway, Suite 200, Boca Raton, FL 33487.

2. Customer is registered to conduct business or as otherwise required in the following states and localities: Florida, 26 other states

3. True and complete copies of the Customer’s Articles of Incorporation and By-laws (“Governing Documents”) are delivered herewith, together with all amendments and addenda thereto as in effect on the date hereof.

4. The following is a true, accurate and compared copy of a Resolution (the “Resolution”) adopted by the Customer’s Board of Directors at a special meeting thereof held on due notice at which there was present a quorum authorized to adopt the Resolution and the entire proceedings of which were proper and in accordance with the Customer’s Governing Documents. The Resolution was duly made, seconded and unanimously adopted, remains in full force and effect and has not been revoked, annulled, amended or modified in any manner whatsoever, and each authorization and empowerment contained in the Resolution is permitted and proper under the Customer’s Governing Documents:

“Resolved, that:

(a) Each executive or managing officer and agent of the Company (each an “Authorized Person”) is and shall be authorized and empowered, separately or collectively, to obtain financing from IBM Credit Corporation, a Delaware corporation (“IBM Credit”) on behalf of the Company, from time to time, in amounts and upon terms and conditions as such Authorized Person deems proper, and for that purpose: (1) to execute notes, financing statements and other evidences of the Company’s indebtedness with respect thereto; (2) to enter into financing agreements, loan agreements, security agreements, pledge agreements and any other agreements with IBM Credit and third parties relating to the terms and conditions upon which any such financing may be obtained and to the security to be furnished by the Company thereof; (3) to enter into, as lessor or lessee, or to assign or sell any interest Company may have in, any lease or similar rental agreement; (4) to modify, supplement or amend any such agreements, any such terms or conditions in such agreements and any such security therefor; (5) to grant powers of attorney, (6) to pledge, assign, guarantee, mortgage, consign, grant security interest in and otherwise transfer to IBM Credit as collateral security for any and all debts and obligations of the Company to IBM Credit or its affiliates, whenever and however arising, any assets of this Company; (7) to execute and deliver any and all assignments, schedules, transfers, endorsements, contracts, guarantees, agreements, designations, consignments, deeds of trust, mortgages, instruments of pledge or other instruments in respect thereof and to make

remittances and payments in respect thereof by checks, drafts or otherwise; and (8) to do and perform all other acts and things deemed by such Authorized Person to be necessary, convenient or proper to carry out any of the foregoing.

(b) The authorization contained herein shall apply whether or not proceeds of any loans or advances made at the request of any Authorized Person shall be paid or credited by IBM Credit to the Company or shall be paid or credited to the individual order of any affiliates of the Company or other third party, and IBM Credit shall be under no obligation to inquire as to the application or disposition of the proceeds of any such loan or advance.

(c) Hereby ratified, approved, confirmed and consented to are all that any Authorized Person has done or may do in the premises."

5. Appearing below are the names, titles and specimen signatures of at least three Authorized Persons, as defined in the Resolution cited in the preceding paragraph, (list at least three such Authorized Persons):

Authorized Person(s) (print)	**Title (print)**	**Signature**
Russel Madris	President	/s/ Russel Madris
Scott Modist	CFO	/s/ Scott Modist
Steve Markiewicz	Secretary	/s/ Steve Markiewicz

The foregoing is not intended to be a comprehensive or exclusive list of the Customer's Authorized Persons. Upon request, Customer will promptly provide to IBM Credit additional certificates containing the name, title and specimen signature of other Authorized Persons, and IBM Credit may now and in the future rely on the signature of any Authorized Person whether or not listed on this or any other certificate or on the signature page(s) hereof. Nevertheless, it is hereby certified that each name, title and signature appearing above or on the signature page(s) hereof, is consistent with the books and records of the Customer.

IN WITNESS WHEREOF, I have signed this certificate this 1st day of November 2002

/s/ Steven Markiewicz

Name: Steven Markiewicz

Attachment G(“Attachment G”) TO
AGREEMENT FOR INVENTORY FINANCING

CORPORATE SECRETARY’S CERTIFICATE AS TO RESOLUTIONS
AUTHORIZING BORROWING BY CORPORATION

IBM CREDIT CORPORATION
1500 RiverEdge Parkway
Atlanta, GA 30328

I, /s/ Steve Markiewicz certify that I am the Secretary of **PC Connection, Inc.** (“Loan Party”) and that I am custodian of the Loan Party’s organizational books and records, including the minutes of the meetings of the Loan Party’s Board of Directors. I further certify as follows:

1. Loan Party is duly organized under the laws of the State of Delaware, and has its principal place of business at 730 Milford Road, Merrimack, NH 03054.

2. Loan Party is registered to conduct business or as otherwise required in the following states and localities: New Hampshire

3. True and complete copies of the Loan Party’s Articles of Incorporation and By-laws (“Governing Documents”) are delivered herewith, together with all amendments and addenda thereto as in effect on the date hereof.

4. The following is a true, accurate and compared copy of a Resolution (the “Resolution”) adopted by the Loan Party’s Board of Directors at a special meeting thereof held on due notice at which there was present a quorum authorized to adopt the Resolution and the entire proceedings of which were proper and in accordance with the Loan Party’s Governing Documents. The Resolution was duly made, seconded and unanimously adopted, remains in full force and effect and has not been revoked, annulled, amended or modified in any manner whatsoever, and each authorization and empowerment contained in the Resolution is permitted and proper under the Loan Party’s Governing Documents:

“Resolved, that:

(a) Each executive or managing officer and agent of the Company (each an “Authorized Person”) is and shall be authorized and empowered, separately or collectively, to obtain financing from IBM Credit Corporation, a Delaware corporation (“IBM Credit”) on behalf of the Company, from time to time, in amounts and upon terms and conditions as such Authorized Person deems proper, and for that purpose: (1) to execute notes, financing statements and other evidences of the Company’s indebtedness with respect thereto; (2) to enter into financing agreements, loan agreements, security agreements, pledge agreements and any other agreements with IBM Credit and third parties relating to the terms and conditions upon which any such financing may be obtained and to the security to be furnished by the Company thereof; (3) to enter into, as lessor or lessee, or to assign or sell any interest Company may have in, any lease or similar rental agreement; (4) to modify, supplement or amend any such agreements, any such terms or conditions in such agreements and any such security therefor; (5) to grant powers of attorney, (6) to pledge, assign, guarantee, mortgage, consign, grant security interest in and otherwise transfer to IBM Credit as collateral security for any and all debts and obligations of the Company to IBM Credit or its affiliates, whenever and however arising, any assets of this Company; (7) to execute and deliver any and all assignments, schedules, transfers, endorsements, contracts, guarantees, agreements, designations, consignments, deeds of trust, mortgages, instruments of pledge or other instruments in respect thereof and to make remittances and payments in respect thereof by checks, drafts or otherwise; and (8) to do and perform all other acts and things deemed by such Authorized Person to be necessary, convenient or proper to carry out any of the foregoing.

(b) The authorization contained herein shall apply whether or not proceeds of any loans or advances made at the request of any Authorized Person shall be paid or credited by IBM Credit to the Company or shall be paid or credited to the individual order of any affiliates of the Company or other third party, and IBM Credit shall be under no obligation to inquire as to the application or disposition of the proceeds of any such loan or advance.

(c) Hereby ratified, approved, confirmed and consented to are all that any Authorized Person has done or may do in the premises."

5. Appearing below are the names, titles and specimen signatures of at least three Authorized Persons, as defined in the Resolution cited in the preceding paragraph, (list at least three such Authorized Persons):

Authorized Person(s) (print)	**Title (print)**	**Signature**
Kenneth Koppel	President	/s/ Kenneth Koppel
Mark Gavin	CFO	/s/ Mark Gavin
Jack Ferguson	Treasurer	/s/ Jack Ferguson

The foregoing is not intended to be a comprehensive or exclusive list of the Loan Party's Authorized Persons. Upon request, Loan Party will promptly provide to IBM Credit additional certificates containing the name, title and specimen signature of other Authorized Persons, and IBM Credit may now and in the future rely on the signature of any Authorized Person whether or not listed on this or any other certificate or on the signature page(s) hereof. Nevertheless, it is hereby certified that each name, title and signature appearing above or on the signature page(s) hereof, is consistent with the books and records of the Loan Party.

IN WITNESS WHEREOF, I have signed this certificate this 1st day of November 2002.

/s/ Steven Markiewicz

Name: Steven Markiewicz

**ATTACHMENT H ("ATTACHMENT H") TO
AGREEMENT FOR INVENTORY FINANCING**

E-BUSINESS SCHEDULE A ("SCHEDULE A")

Customer Names: Merrimack Services Corporation, GovConnection, Inc., MoreDirect, Inc.

Effective Date of This Schedule A: October 31, 2002

E-DOCUMENTS - SUPPLIERS:

Invoices

Payment Report/Remittance Advice

Transaction Approval

E-DOCUMENTS - CUSTOMERS:

Invoices

Debit Entry

Remittance Advice

Transaction Approval

Billing Statement

Payment Planner

Statements of Transaction

Common Dispute Form

IBM Corporation Dispute Form

IBM Credit Corporation

COLLATERALIZED GUARANTY

1. In consideration of credit and financing accommodations granted or to be granted by **IBM Credit Corporation** with an office located at North Castle Drive, Armonk, NY 10504 ("IBM Credit") to **Merrimack Service Corp., More Direct, Inc. and GovConnection, Inc.** ("Customer"), which is in the best interest of **PC Connection, Inc.** ("Guarantor"), and for other good and valuable consideration received, Guarantor jointly and severally guaranties to IBM Credit, from property held separately, jointly or in community, the prompt and unconditional performance and payment by Customer of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Customer is in any manner obligated, heretofore, now, or hereafter owned, contracted or acquired by IBM Credit ("Liabilities"), whether the Liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. Guarantor also agrees to indemnify IBM Credit and hold IBM Credit harmless against any losses it may sustain and expenses it may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Customer.

2. Guarantor represents and covenants that its name as stated above is the exact name of Guarantor as set forth in its charter or other organizational record. Guarantor represents that it is duly organized under the laws of the State of Delaware and the organization document creating Guarantor has been filed in the appropriate office of such State. Guarantor's organization identification number assigned by its State of organization is 3149279. Guarantor represents that its principal place of business is located at: 730 Milford Road, Rte. 101A, Merrimack, NH 03054. Guarantor represents that its business is conducted as a Corporation. Guarantor will not change its name, location (as defined in Article 9 of the U.C.C.) or State of organization. Guarantor will provide IBM Credit at least thirty (30) days prior written notice of any change in Guarantor's chief executive office or principal place of business. The Collateral (as defined below) shall be kept at Guarantor's principal place of business and at the following addresses: ______________________________________
____
____. Guarantor will notify IBM Credit if any Collateral is moved to any other address. Guarantor and Guarantor's predecessors have done business during the last six (6) months only under the following names: ____
____. This paragraph is not in any manner intended to limit the extent of IBM Credit's security interest in the Collateral.

3. If Customer fails to pay or perform any Liabilities to IBM Credit when due, all Liabilities to IBM Credit shall then be deemed to have become immediately due and payable, and Guarantor shall then pay upon demand the full amount of all sums owed to IBM Credit by Customer, together with all expenses, including reasonable attorney's fees.

4. The liability of Guarantor is direct and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment of any security agreement or any other agreement between IBM Credit and Customer, or any change in the manner, place or terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, or the waiver of any default or event of default under any financing agreement between IBM Credit and Customer, or the release or non-perfection of any security thereunder, any change in Customer's financial condition, or the interruption of business relations between IBM Credit and Customer. This Guaranty is and shall be deemed to be a continuing guaranty and shall remain in full force and effect until the indefeasible payment in full of the Liabilities and any other amounts payable under this Guaranty and the cessation of all obligations of IBM Credit to extend credit to Customer. Guarantor acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between IBM Credit and Customer or any other person creating or reserving any lien, encumbrance or security interest in any property of Customer or any other person as security for any obligation of Customer. IBM Credit need not exhaust its rights or recourse against Customer or any other person or any security IBM Credit may have at any time before being entitled to payment from Guarantor.

5. To secure payment of all of Guarantor's current and future debts and obligations to IBM Credit, whether under this Guaranty or any other agreement between IBM Credit and Guarantor, whether direct or contingent, Guarantor does assign, pledge and give to IBM Credit a security interest in certain of Guarantor's personal property, whether now owned or hereafter acquired or existing and wherever located, consisting of the following: all goods manufactured or sold by International Business Machines Corporation ("IBM") or Lexmark International, Inc. ("Lexmark") or bearing the trademarks or trade names of IBM or Lexmark, including, inventory and equipment and all parts thereof, attachments, accessories and accessions thereto, products thereof and documents therefor, but excluding, however, Guarantor's capital equipment; all price protection payments, credits, discounts, incentive payments, rebates, and refunds which at any time are due to Guarantor with respect to or in connection with any inventory and equipment described above; all substitutions and replacements for all of the foregoing, and all products and cash proceeds of all of the foregoing and, to the extent not otherwise included, all payments under insurance or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing (all of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code as in effect in the State of New York and are hereinafter referred to as the "Collateral"). This security interest is also granted to secure Guarantor's debts to all of IBM Credit's affiliates.

6. IBM Credit shall have the right, but not the obligation, from time to time, as IBM Credit in its sole discretion may determine, and all without any advance notice to Guarantor, to: (a) examine the Collateral; (b) appraise it as security; (c) verify its condition and nonuse; (d) verify that all Collateral has been properly accounted for and this Agreement complied with, and (e) assess, examine, check and make copies of any and all of Guarantor's books, records and files.

7. If Guarantor does not comply with any of the terms of this Agreement, or Guarantor fails to fulfill any obligation to IBM Credit or any of IBM Credit's affiliates under any other agreement between IBM Credit and Guarantor or between Guarantor and any of IBM Credit's affiliates, or Guarantor becomes insolvent or ceases to do business as a going concern, or a bankruptcy, insolvency proceeding, arrangement or reorganization is filed by or against Guarantor, or any of Guarantor's property is attached or seized, or a receiver is appointed for Guarantor, or Guarantor commits any act which impairs the prospect of full performance or satisfaction of Guarantor's obligations to IBM Credit, or Guarantor shall lose any franchise, permission, license or right to conduct its business, or Guarantor misrepresents its financial condition or organizational structure, or whenever IBM Credit deems the debt or Collateral to be insecure:

(a) IBM Credit may call all or any part of the amount Guarantor or Customer owes IBM Credit or IBM Credit's affiliates due and payable immediately, if permitted by applicable law, together with court costs and all costs and expenses of IBM Credit's repossession and collection activity, including, but not limited to reasonable attorney's fees.

(b) Guarantor will hold and keep the Collateral in trust, in good order and repair, for IBM Credit's benefit and shall not exhibit or sell it.

(c) Upon IBM Credit's demand, Guarantor will immediately deliver the Collateral to IBM Credit, in good order and repair, at a place reasonably convenient to IBM Credit, together with all related documents; or IBM Credit may, in IBM Credit's sole discretion and without demand, take immediate possession of the Collateral, together with all related documents.

(d) Guarantor waives and releases: (i) any and all claims and causes of action which Guarantor may now or ever have against IBM Credit as a result of any possession, repossession, collection or sale by IBM Credit of any of the Collateral, notwithstanding the effect of such possession, repossession, collection or sale upon Guarantor's business; (ii) all rights of redemption from any such sale; and (iii) the benefit of all valuation, appraisal and exemption laws. If IBM Credit seeks to take possession of any of the Collateral by replevin or other court process, Guarantor irrevocably waives any notice, bonds, surety and security relating thereto required by any statute, court rule or otherwise as an incident to such possession and any demand for possession of the Collateral prior to the commencement of any suit or action to recover possession thereof.

(e) Guarantor appoints IBM Credit or any person IBM Credit may delegate as its duly authorized Attorney-in-Fact (without notifying Guarantor) to do, in IBM Credit's sole discretion, any of the following with respect to the Collateral: (i) sell, assign, transfer, negotiate or pledge any and all accounts, chattel paper, or contract rights; (ii) endorse Guarantor's name on any and all notes, checks, drafts, or other forms of exchange received as payment on any accounts, chattel paper and contract rights, for deposit in IBM Credit's account; (iii) grant any extension, rebate or renewal on any and all accounts, chattel paper or contract rights, or enter into any settlement thereof; (iv) demand, collect and receive any and all amounts due on accounts, chattel paper and contract rights; and (v) exercise any and all other rights Guarantor has in the Collateral.

(f) In the event Guarantor brings any action or asserts any claim against IBM Credit which arises out of this Agreement, any other agreement or any of Guarantor's and IBM Credit's business dealings, in which Guarantor does not prevail, Guarantor agrees to pay IBM Credit all court costs and all costs and expenses of IBM Credit's defense of such action of claim including, but not limited to, reasonable attorney's fees.

8. IBM Credit may also declare a default under this Agreement and exercise any and all rights and remedies available herein, if, in IBM Credit's sole discretion, IBM Credit determines that the Collateral has decreased in value, and Guarantor has been unable to either: (a) provide IBM Credit with additional Collateral in a form and substance satisfactory to IBM Credit; or (b) reduce the total indebtedness of Customer by an amount sufficient to IBM Credit.

9. IBM Credit has and will always possess all the rights and remedies of a secured party under law, and IBM Credit's rights and remedies are and will always be cumulative. Guarantor acknowledges and agrees that the Collateral is the subject of widely distributed standard price quotations and is customarily sold in a recognized market. Guarantor agrees that a private sale by IBM Credit of any of the Collateral to a dealer in those types of Collateral is a commercially reasonable sale. Further, Guarantor agrees that IBM Credit's delivery of any of the Collateral to a distributor or manufacturer, with a request that it repurchase Collateral, as provided in any repurchase agreement with IBM Credit, is a commercially reasonable disposition or sale.

10. Guarantor promises that (a) the Collateral is and shall remain free from all claims and liens except IBM Credit's; (b) Guarantor shall defend the Collateral against all other claims and demands; and (c) Guarantor will notify IBM Credit before it signs, or authorizes the signing of any financing statement regardless of its coverage. Guarantor authorizes IBM Credit to file with any filing office such financing statements, amendments, addenda and other records showing IBM Credit as secured party, Guarantor as the debtor and identifying IBM Credit's security interest in the Collateral that IBM Credit deems necessary to perfect and maintain IBM Credit's security interest in the Collateral. Guarantor will execute any and all documents IBM Credit may request to confirm or perfect IBM Credit's title or security interest in the Collateral.

11. Guarantor will pay all taxes, license fees, assessments and charges on the Collateral when due. Guarantor will be responsible for any loss of Collateral for any reason whatsoever. Guarantor will keep the Collateral insured for its full insurable value against loss or damage by fire, wind, theft and for combined additional coverage, including vandalism and malicious mischief, and for other risks as IBM Credit may require. Guarantor will obtain insurance under such terms and in amounts as IBM Credit may specify, from time to time, in companies acceptable to IBM Credit, with a loss-payee or mortgagee clause payable to IBM Credit to the extent of any loss to the Collateral and containing a waiver of all defenses against Guarantor that is acceptable to IBM Credit. Guarantor further agrees to provide IBM Credit with written evidence of the required insurance coverage and loss-payee or mortgagee clause. Guarantor assigns to IBM Credit all sums not in excess of the unpaid debt owed IBM Credit, and directs any insurance company to make payment directly to IBM Credit to be applied to the unpaid debt owed IBM Credit. Guarantor further grants IBM Credit an irrevocable power of attorney to endorse any draft and sign and file all of the necessary papers, forms and documents to initiate and settle any and all claims with respect to the Collateral. If Guarantor fails to pay any of the above-referenced costs, charges or any insurance premiums, or if it fails to insure the Collateral, IBM Credit may pay such costs, charges or any insurance premiums, and the amounts paid shall be considered an additional debt owed by Guarantor to IBM Credit. Guarantor will promptly notify IBM Credit of any loss, theft or destruction of or damage to any of the Collateral.

12. Guarantor will not rent, lease, lend, demonstrate, pledge, create a security interest in, transfer or secrete any of the Collateral, or use the Collateral for any purpose other than exhibition, without IBM Credit's prior written consent.

13. This Guaranty is assignable, shall be construed liberally in IBM Credit's favor, and shall inure to the benefit of and bind IBM Credit's and Guarantor's respective successors, personal representatives and assigns, and also benefit any of IBM Credit's existing or future affiliates that may extend credit to Customer.

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

15. Guarantor waives: notice of the acceptance of this Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance and dishonor; notices of amount of indebtedness of Customer outstanding at any time; notices of the number and amount of advances made by IBM Credit to Customer in reliance on this Guaranty; notice of the financial condition of Customer or any other guarantor or any change therein; notice of the release of collateral for the Liabilities, of any other guaranty, pledge or suretyship agreement or any collateral therefor; notices of any legal proceedings or other efforts to collect against Customer; notice of any recoupment, setoff, administrative freeze on Customer's credit or assets; notice and any opportunity for a hearing as to any prejudgment remedies; and any other demands and notices required by law. Guarantor further waives all rights to assert against IBM Credit any right of recoupment, setoff, and all claims, defenses, and counterclaims against IBM Credit or Customer, including any defense based on the lack of good faith. To the extent permitted by law, Guarantor also waives any and all rights in and notices or demands relating to any Collateral now or hereafter securing any of the Liabilities. All waivers by Guarantor herein shall survive any termination or revocation of this Guaranty.

16. Guarantor authorizes IBM Credit to sell at public or private sale or otherwise realize upon the Collateral now or hereafter securing any of the Liabilities, in such manner and upon such terms and conditions as IBM Credit deems best, all without advertisement or notice to Customer, Guarantor, or any third parties. Guarantor further authorizes IBM Credit to deal with the proceeds of such Collateral as provided in IBM Credit's agreement with Customer, without prejudice to IBM Credit's claim for any deficiency and free from any right or redemption on the part of Customer, Guarantor or any third parties, which right or redemption is hereby waived together with every formality prescribed by custom or by law in relation to any such sale or other realization.

17. Guarantor further agrees that all of its right, title and interest in, to and under any loans, notes, debts and all other liabilities and obligations whatsoever owed by Customer to Guarantor, whether heretofore or hereafter created or incurred and for whatever amount, and all security therefor, shall be now and hereafter at all times fully subordinated to all Liabilities. Guarantor will not ask, demand or sue for, or take or receive payment of, all or any part of such loans, notes, debts or any other liabilities or obligations whatsoever or any security therefor, until and unless all of the Liabilities are paid, performed and fully satisfied. In addition, until such time that the Liabilities are indefeasibly paid in full, Guarantor irrevocably waives, for the benefit of IBM Credit, any and all rights which it presently has, or may hereafter have, whether by virtue of any payment or payments hereunder or otherwise, to be subrogated to the rights of IBM Credit against the Customer with respect to any such indebtedness of the Customer to IBM Credit.

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

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

20. This Guaranty is submitted by Guarantor to IBM Credit (for IBM Credit's acceptance or rejection thereof) at IBM Credit's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM Credit to Customer. If accepted, this Guaranty shall be deemed to have been made at IBM Credit's above-specified office. This Guaranty and all obligations pursuant thereto, shall be governed and controlled as to interpretation, enforcement, validity, construction, effect and, in all other respects by the laws of the Commonwealth of Massachusetts without giving effect to the principles of conflicts of laws. Guarantor, to induce IBM Credit to accept this Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Guaranty may be litigated, at IBM Credit's sole discretion and election, in courts within the Commonwealth of Massachusetts. Guarantor consents and submits to the jurisdiction of any local, state or federal court located within that state. Guarantor waives any right to transfer or change the venue of any litigation brought against Guarantor by IBM Credit in accordance with this paragraph.

21. Any delay by IBM Credit, or IBM Credit's successors, affiliates or assigns in exercising any or all rights granted IBM Credit under this Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by IBM Credit, IBM Credit's successors, affiliates or assigns, to exercise any or all rights granted IBM Credit under this Guaranty shall not operate as a waiver of IBM Credit's right to exercise any or all of them later. This document contains the full agreement of the parties concerning the guaranty of Customer's Liabilities and can be varied only by a document signed by all of the parties hereto.

THE PARTIES AGREE THAT ANY ACTION, SUIT OR PROCEEDING, RELATING DIRECTLY OR INDIRECTLY TO THIS GUARANTY, OR THE RELATIONSHIP BETWEEN IBM CREDIT AND GUARANTOR, WILL BE TRIED IN A COURT OF

COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. THUS, THE PARTIES HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH ACTION, SUIT OR PROCEEDING.

ATTEST:

/s/ Steven Markiewicz

Secretary

Print Name: Steven Markiewicz

(SEAL)

PC Connection, Inc.

By: /s/ Mark Gavin

Print Name: Mark Gavin

Title: CFO

Date: 11/14/02

Guarantor's Address:

730 Milford Road, Rte. 101A

Merrimack, NH 03054

IBM Credit Corporation

By: /s/ Sal Grasso

Print Name: Sal Grasso

Title: Mgr. of Credit

IBM Credit Corporation

COLLATERALIZED GUARANTY

1. In consideration of credit and financing accommodations granted or to be granted by **IBM Credit Corporation** with an office located at North Castle Drive, Armonk, NY 10504 ("IBM Credit") to **Merrimack Service Corp., More Direct, Inc. and GovConnection, Inc.** ("Customer"), which is in the best interest of **PC Connection Sales Corporation** ("Guarantor"), and for other good and valuable consideration received, Guarantor jointly and severally guaranties to IBM Credit, from property held separately, jointly or in community, the prompt and unconditional performance and payment by Customer of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Customer is in any manner obligated, heretofore, now, or hereafter owned, contracted or acquired by IBM Credit ("Liabilities"), whether the Liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. Guarantor also agrees to indemnify IBM Credit and hold IBM Credit harmless against any losses it may sustain and expenses it may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Customer.

2. Guarantor represents and covenants that its name as stated above is the exact name of Guarantor as set forth in its charter or other organizational record. Guarantor represents that it is duly organized under the laws of the State of Delaware and the organization document creating Guarantor has been filed in the appropriate office of such State. Guarantor's organization identification number assigned by its State of organization is 2824298. Guarantor represents that its principal place of business is located at: 730 Milford Road, Rte. 101 A, Merrimack, NH 03054. Guarantor represents that its business is conducted as a Corporation. Guarantor will not change its name, location (as defined in Article 9 of the U.C.C.) or State of organization. Guarantor will provide IBM Credit at least thirty (30) days prior written notice of any change in Guarantor's chief executive office or principal place of business. The Collateral (as defined below) shall be kept at Guarantor's principal place of business and at the following addresses: ____

____

____. Guarantor will notify IBM Credit if any Collateral is moved to any other address. Guarantor and Guarantor's predecessors have done business during the last six (6) months only under the following names: ____

____. This paragraph is not in any manner intended to limit the extent of IBM Credit's security interest in the Collateral.

3. If Customer fails to pay or perform any Liabilities to IBM Credit when due, all Liabilities to IBM Credit shall then be deemed to have become immediately due and payable, and Guarantor shall then pay upon demand the full amount of all sums owed to IBM Credit by Customer, together with all expenses, including reasonable attorney's fees.

4. The liability of Guarantor is direct and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment of any security agreement or any other agreement between IBM Credit and Customer, or any change in the manner, place or terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, or the waiver of any default or event of default under any financing agreement between IBM Credit and Customer, or the release or non-perfection of any security thereunder, any change in Customer's financial condition, or the interruption of business relations between IBM Credit and Customer. This Guaranty is and shall be deemed to be a continuing guaranty and shall remain in full force and effect until the indefeasible payment in full of the Liabilities and any other amounts payable under this Guaranty and the cessation of all obligations of IBM Credit to extend credit to Customer. Guarantor acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between IBM Credit and Customer or any other person creating or reserving any lien, encumbrance or security interest in any property of Customer or any other person as security for any obligation of Customer. IBM Credit need not exhaust its rights or recourse against Customer or any other person or any security IBM Credit may have at any time before being entitled to payment from Guarantor.

5. To secure payment of all of Guarantor's current and future debts and obligations to IBM Credit, whether under this Guaranty or any other agreement between IBM Credit and Guarantor, whether direct or contingent, Guarantor does assign, pledge and give to IBM Credit a security interest in certain of Guarantor's personal property, whether now owned or hereafter acquired or existing and wherever located, consisting of the following: all goods manufactured or sold by International Business Machines Corporation ("IBM") or Lexmark International, Inc. ("Lexmark") or bearing the trademarks or trade names of IBM or Lexmark, including, inventory and equipment and all parts thereof, attachments, accessories and accessions thereto, products thereof and documents therefor, but excluding, however, Guarantor's capital equipment; all price protection payments, credits, discounts, incentive payments, rebates, and refunds which at any time are due to Guarantor with respect to or in connection with any inventory and equipment described above; all substitutions and replacements for all of the foregoing, and all products and cash proceeds of all of the foregoing and, to the extent not otherwise included, all payments under insurance or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing (all of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code as in effect in the State of New York and are hereinafter referred to as the "Collateral"). This security interest is also granted to secure Guarantor's debts to all of IBM Credit's affiliates.

6. IBM Credit shall have the right, but not the obligation, from time to time, as IBM Credit in its sole discretion may determine, and all without any advance notice to Guarantor, to: (a) examine the Collateral; (b) appraise it as security; (c) verify its condition and nonuse; (d) verify that all Collateral has been properly accounted for and this Agreement complied with, and (e) assess, examine, check and make copies of any and all of Guarantor's books, records and files.

7. If Guarantor does not comply with any of the terms of this Agreement, or Guarantor fails to fulfill any obligation to IBM Credit or any of IBM Credit's affiliates under any other agreement between IBM Credit and Guarantor or between Guarantor and any of IBM Credit's affiliates, or Guarantor becomes insolvent or ceases to do business as a going concern, or a bankruptcy, insolvency proceeding, arrangement or reorganization is filed by or against Guarantor, or any of Guarantor's property is attached or seized, or a receiver is appointed for Guarantor, or Guarantor commits any act which impairs the prospect of full performance or satisfaction of Guarantor's obligations to IBM Credit, or Guarantor shall lose any franchise, permission, license or right to conduct its business, or Guarantor misrepresents its financial condition or organizational structure, or whenever IBM Credit deems the debt or Collateral to be insecure:

(a) IBM Credit may call all or any part of the amount Guarantor or Customer owes IBM Credit or IBM Credit's affiliates due and payable immediately, if permitted by applicable law, together with court costs and all costs and expenses of IBM Credit's repossession and collection activity, including, but not limited to reasonable attorney's fees.

(b) Guarantor will hold and keep the Collateral in trust, in good order and repair, for IBM Credit's benefit and shall not exhibit or sell it.

(c) Upon IBM Credit's demand, Guarantor will immediately deliver the Collateral to IBM Credit, in good order and repair, at a place reasonably convenient to IBM Credit, together with all related documents; or IBM Credit may, in IBM Credit's sole discretion and without demand, take immediate possession of the Collateral, together with all related documents.

(d) Guarantor waives and releases: (i) any and all claims and causes of action which Guarantor may now or ever have against IBM Credit as a result of any possession, repossession, collection or sale by IBM Credit of any of the Collateral, notwithstanding the effect of such possession, repossession, collection or sale upon Guarantor's business; (ii) all rights of redemption from any such sale; and (iii) the benefit of all valuation, appraisal and exemption laws. If IBM Credit seeks to take possession of any of the Collateral by replevin or other court process, Guarantor irrevocably waives any notice, bonds, surety and security relating thereto required by any statute, court rule or otherwise as an incident to such possession and any demand for possession of the Collateral prior to the commencement of any suit or action to recover possession thereof.

(e) Guarantor appoints IBM Credit or any person IBM Credit may delegate as its duly authorized Attorney-in-Fact (without notifying Guarantor) to do, in IBM Credit's sole discretion, any of the following with respect to the Collateral: (i) sell, assign, transfer, negotiate or pledge any and all accounts, chattel paper, or contract rights; (ii) endorse Guarantor's name on any and all notes, checks, drafts, or other forms of exchange received as payment on any accounts, chattel paper and contract rights, for deposit in IBM Credit's account; (iii) grant any extension, rebate or renewal on any and all accounts, chattel paper or contract rights, or enter into any settlement thereof; (iv) demand, collect and receive any and all amounts due on accounts, chattel paper and contract rights; and (v) exercise any and all other rights Guarantor has in the Collateral.

(f) In the event Guarantor brings any action or asserts any claim against IBM Credit which arises out of this Agreement, any other agreement or any of Guarantor's and IBM Credit's business dealings, in which Guarantor does not prevail, Guarantor agrees to pay IBM Credit all court costs and all costs and expenses of IBM Credit's defense of such action of claim including, but not limited to, reasonable attorney's fees.

8. IBM Credit may also declare a default under this Agreement and exercise any and all rights and remedies available herein, if, in IBM Credit's sole discretion, IBM Credit determines that the Collateral has decreased in value, and Guarantor has been unable to either: (a) provide IBM Credit with additional Collateral in a form and substance satisfactory to IBM Credit; or (b) reduce the total indebtedness of Customer by an amount sufficient to IBM Credit.

9. IBM Credit has and will always possess all the rights and remedies of a secured party under law, and IBM Credit's rights and remedies are and will always be cumulative. Guarantor acknowledges and agrees that the Collateral is the subject of widely distributed standard price quotations and is customarily sold in a recognized market. Guarantor agrees that a private sale by IBM Credit of any of the Collateral to a dealer in those types of Collateral is a commercially reasonable sale. Further, Guarantor agrees that IBM Credit's delivery of any of the Collateral to a distributor or manufacturer, with a request that it repurchase Collateral, as provided in any repurchase agreement with IBM Credit, is a commercially reasonable disposition or sale.

10. Guarantor promises that (a) the Collateral is and shall remain free from all claims and liens except IBM Credit's; (b) Guarantor shall defend the Collateral against all other claims and demands; and (c) Guarantor will notify IBM Credit before it signs, or authorizes the signing of any financing statement regardless of its coverage. Guarantor authorizes IBM Credit to file with any filing office such financing statements, amendments, addenda and other records showing IBM Credit as secured party, Guarantor as the debtor and identifying IBM Credit's security interest in the Collateral that IBM Credit deems necessary to perfect and maintain IBM Credit's security interest in the Collateral. Guarantor will execute any and all documents IBM Credit may request to confirm or perfect IBM Credit's title or security interest in the Collateral.

11. Guarantor will pay all taxes, license fees, assessments and charges on the Collateral when due. Guarantor will be responsible for any loss of Collateral for any reason whatsoever. Guarantor will keep the Collateral insured for its full insurable value against loss or damage by fire, wind, theft and for combined additional coverage, including vandalism and malicious mischief, and for other risks as IBM Credit may require. Guarantor will obtain insurance under such terms and in amounts as IBM Credit may specify, from time to time, in companies acceptable to IBM Credit, with a loss-payee or mortgagee clause payable to IBM Credit to the extent of any loss to the Collateral and containing a waiver of all defenses against Guarantor that is acceptable to IBM Credit. Guarantor further agrees to provide IBM Credit with written evidence of the required insurance coverage and loss-payee or mortgagee clause. Guarantor assigns to IBM Credit all sums not in excess of the unpaid debt owed IBM Credit, and directs any insurance company to make payment directly to IBM Credit to be applied to the unpaid debt owed IBM Credit. Guarantor further grants IBM Credit an irrevocable power of attorney to endorse any draft and sign and file all of the necessary papers, forms and documents to initiate and settle any and all claims with respect to the Collateral. If Guarantor fails to pay any of the above-referenced costs, charges or any insurance premiums, or if it fails to insure the Collateral, IBM Credit may pay such costs, charges or any insurance premiums, and the amounts paid shall be considered an additional debt owed by Guarantor to IBM Credit. Guarantor will promptly notify IBM Credit of any loss, theft or destruction of or damage to any of the Collateral.

12. Guarantor will not rent, lease, lend, demonstrate, pledge, create a security interest in, transfer or secrete any of the Collateral, or use the Collateral for any purpose other than exhibition, without IBM Credit's prior written consent.

13. This Guaranty is assignable, shall be construed liberally in IBM Credit's favor, and shall inure to the benefit of and bind IBM Credit's and Guarantor's respective successors, personal representatives and assigns, and also benefit any of IBM Credit's existing or future affiliates that may extend credit to Customer.

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

15. Guarantor waives: notice of the acceptance of this Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance and dishonor; notices of amount of indebtedness of Customer outstanding at any time; notices of the number and amount of advances made by IBM Credit to Customer in reliance on this Guaranty; notice of the financial condition of Customer or any other guarantor or any change therein; notice of the release of collateral for the Liabilities, of any other guaranty, pledge or suretyship agreement or any collateral therefor; notices of any legal proceedings or other efforts to collect against Customer; notice of any recoupment, setoff, administrative freeze on Customer's credit or assets; notice and any opportunity for a hearing as to any prejudgment remedies; and any other demands and notices required by law. Guarantor further waives all rights to assert against IBM Credit any right of recoupment, setoff, and all claims, defenses, and counterclaims against IBM Credit or Customer, including any defense based on the lack of good faith. To the extent permitted by law, Guarantor also waives any and all rights in and notices or demands relating to any Collateral now or hereafter securing any of the Liabilities. All waivers by Guarantor herein shall survive any termination or revocation of this Guaranty.

16. Guarantor authorizes IBM Credit to sell at public or private sale or otherwise realize upon the Collateral now or hereafter securing any of the Liabilities, in such manner and upon such terms and conditions as IBM Credit deems best, all without advertisement or notice to Customer, Guarantor, or any third parties. Guarantor further authorizes IBM Credit to deal with the proceeds of such Collateral as provided in IBM Credit's agreement with Customer, without prejudice to IBM Credit's claim for any deficiency and free from any right or redemption on the part of Customer, Guarantor or any third parties, which right or redemption is hereby waived together with every formality prescribed by custom or by law in relation to any such sale or other realization.

17. Guarantor further agrees that all of its right, title and interest in, to and under any loans, notes, debts and all other liabilities and obligations whatsoever owed by Customer to Guarantor, whether heretofore or hereafter created or incurred and for whatever amount, and all security therefor, shall be now and hereafter at all times fully subordinated to all Liabilities. Guarantor will not ask, demand or sue for, or take or receive payment of, all or any part of such loans, notes, debts or any other liabilities or obligations whatsoever or any security therefor, until and unless all of the Liabilities are paid, performed and fully satisfied. In addition, until such time that the Liabilities are indefeasibly paid in full, Guarantor irrevocably waives, for the benefit of IBM Credit, any and all rights which it presently has, or may hereafter have, whether by virtue of any payment or payments hereunder or otherwise, to be subrogated to the rights of IBM Credit against the Customer with respect to any such indebtedness of the Customer to IBM Credit.

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

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

20. This Guaranty is submitted by Guarantor to IBM Credit (for IBM Credit's acceptance or rejection thereof) at IBM Credit's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM Credit to Customer. If accepted, this Guaranty shall be deemed to have been made at IBM Credit's above-specified office. This Guaranty and all obligations pursuant thereto, shall be governed and controlled as to interpretation, enforcement, validity, construction, effect and, in all other respects by the laws of the Commonwealth of Massachusetts without giving effect to the principles of conflicts of laws. Guarantor, to induce IBM Credit to accept this Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Guaranty may be litigated, at IBM Credit's sole discretion and election, in courts within the Commonwealth of Massachusetts. Guarantor consents and submits to the jurisdiction of any local, state or federal court located within that state. Guarantor waives any right to transfer or change the venue of any litigation brought against Guarantor by IBM Credit in accordance with this paragraph.

21. Any delay by IBM Credit, or IBM Credit's successors, affiliates or assigns in exercising any or all rights granted IBM Credit under this Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by IBM Credit, IBM Credit's successors, affiliates or assigns, to exercise any or all rights granted IBM Credit under this Guaranty shall not operate as a waiver of IBM Credit's right to exercise any or all of them later. This document contains the full agreement of the parties concerning the guaranty of Customer's Liabilities and can be varied only by a document signed by all of the parties hereto.

THE PARTIES AGREE THAT ANY ACTION, SUIT OR PROCEEDING, RELATING DIRECTLY OR INDIRECTLY TO THIS GUARANTY, OR THE RELATIONSHIP BETWEEN IBM CREDIT AND GUARANTOR, WILL BE TRIED IN A COURT OF

COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. THUS, THE PARTIES HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH ACTION, SUIT OR PROCEEDING.

ATTEST:	PC Connection Sales Corporation
/s/ Steven Markiewicz	By: Bob Gregerson
Secretary	
Print Name: Steven Markiewicz	Print Name: Bob Gregerson
	Title: President
	Date: 11/14/02
(SEAL)	

Guarantor's Address:
730 Milford Road, Rte. 101A
Merrimack, NH 03054

IBM Credit Corporation

By: /s/ Sal Grasso

Print Name: Sal Grasso

Title: Mgr. of Credit

Exhibit 10.49

Amendment No. 2 to Lease

THIS AGREEMENT made this 24th day of April, 2003 by and between EWE WAREHOUSE INVESTMENTS V., LTD., as LESSOR and MERRIMACK SERVICES CORPORATION dba PC CONNECTION SERVICES, as Lessee located at 2907-2931 Old State Route 73, Wilmington, Ohio 45117.

W I T N E S S E T H:

WHEREAS, Lessor and Lessee entered into a Lease dated May 13, 1993, as amended June 19, 2001, and

INASMUCH AS, Lessee desires to combine the two Leases currently in place for a total of 102,400 square feet of Lease Premises in the building into one Lease, this Lease of approximately 32,000 square feet shall be amended to expand the Leased Premises, extend the term, revise the rent and modify the Option to Renew.

NOW THEREFORE, the Lease is amended as follows.

1. Commencing on October 1, 2003, the Lessee shall lease an additional 70,400 square feet at 2841-2901 Old State Route 73, Wilmington, Ohio 45177. The Lessee shall then occupy a revised total of approximately 102,400 square feet of Leased Premises at 2841-2931 Old State Route 73, Wilmington, Ohio 45177, as shown on Exhibit "A", hereto attached. Therefore, upon the full execution and commencement of this Lease Amendment No. 2, the Lease dated August 12, 1991, as amended May 1, 1992, October 18, 1992, and June 19, 2001 and as assigned December 13, 1999, for the Premises consisting of 70,400 square feet at 2841-2901 Old State Route 73, Wilmington, Ohio 45177 shall simultaneously terminate and Lessee shall have no further obligations under such Lease except for outstanding receivables, if any.

2. Lessee warrants that Lessee has accepted and is now in possession of the Revised Premises and that the Lease is valid and presently in full force and effect. Lessee accepts the Premises in its present “as is” condition.

3. Article 1. TERM. shall be revised as follows.

Effective October 1, 2003, the term of this Lease shall be extended for an additional two (2) years, two (2) months for a total term of twelve (12) years, two (2) months, commencing October 1, 1993 and ending November 30, 2005, both dates inclusive.

4. Article 3. RENT. Shall be revised as follows.

For the two (2) month period of October 1. 2003 through November 30, 2003, the Lessee shall occupy the 102,400 square feet of Revised Leased Premises “rent free”.

For the period commencing December 1, 2003 and ending November 30, 2005, the Lessee shall pay to the Lessor as Annual Rent for the Revised Leased Premises the sum of FIVE HUNDRED TWENTY-TWO THOUSAND TWO HUNDRED FORTY AND 00/100 DOLLARS ($522,240.00) which shall be paid in equal monthly installments of FORTY-THREE THOUSAND FIVE HUNDRED TWENTY AND 00/100 DOLLARS ($43,520.00), due and payable on the first day of each month in advance, without demand.

Checks should be made payable to EWE Warehouse Investments V, Ltd. and sent to c/o Easton & Associates, 10165 N.W. 19th Street, Miami, Florida 33172.

5. Article 20. NOTICE shall be revised as follows.

All notices under this Lease may be personally delivered; sent by courier service, with receipt; or mailed to the address shown by certified mail, return receipt requested. The effective date of any mailed notice shall be one (1) day after delivery of the same to the United States Postal Service.

Lessor: EWE Warehouse Investments V, Ltd.

Mail: c/o Miller-Valentine Realty, Inc.
P.O. Box 744
Dayton, Ohio 45401-0744

Courier: 4000 Miller-Valentine Court
Moraine, Ohio 45439

cc: EWE Warehouse Investments V, Ltd.
c/o Easton & Associates
10165 N.W. 19th Street
Miami, Florida 33172

Lessee: Merrimack Services Corporation
dba PC Connection Services

Mail: Attn: Robert Pratt
M/S F-555 730 Milford Road, #101A
Merrimack, NH 03054

Either party may from time to time designate in writing other addresses.

6. OPTION TO RENEW shall be amended as follows.

Lessee is hereby granted an option to renew this Lease for an additional term of two (2) years on the same terms and conditions contained herein except for the rental and the length of the term, upon the conditions that:

a. written notice of the exercise of such option shall be given by Lessee to Lessor not less than one hundred eighty (180) days prior to the end of the term of this Lease (by May 31, 2005); and

b. at the time of the giving of such notice and at the expiration of the term of this Lease, there are no defaults in the covenants, agreements, terms and conditions on the part of Lessee to be kept and performed, and all rents are and have been fully paid. Provided also, that the rent to be paid during each year of the said renewal period shall be as determined in accordance with the following:

Renew Option for the period commencing December 1, 2005 and ending November 30, 2006, Lessee shall pay to the Lessor as Annual Rent for the Leased Premises the sum of FIVE HUNDRED THIRTY-SEVEN THOUSAND SIX HUNDRED AND 00/100 DOLLARS ($537,600.00) which shall be paid in equal monthly installments of FORTY-FOUR THOUSAND EIGHT HUNDRED AND 00/100 DOLLARS ($44,800.00), due and payable on the first day of each month, in advance, without demand.

For the period commencing December 1, 2006 and ending November 30, 2007, Lessee shall pay to the Lessor as Annual Rent for the Leased Premises the sum of FIVE HUNDRED FIFTY-TWO THOUSAND NINE HUNDRED SIXTY AND 00/100 DOLLARS ($552,960.00) which shall be paid in equal monthly installments of FORTY-SIX THOUSAND EIGHTY and 00/100 DOLLARS ($46,080.00), due and payable on the first day of each month, in advance, without demand.

7. Except as expressly amended herein, all other terms and conditions of the Lease remain in full force and effect.

IN WITNESS WHEREOF, the Lessor and Lessee have affixed their signatures to duplicates of this Amendment, this 21st day of April 2003, as to Lessee and this 24th day of April 2003, as to Lessor.

Signed and acknowledged In the presence of:	LESSOR: EWE WAREHOUSE INVESTMENTS V, LTD. By: Miller-Valentine Realty, Inc. Its: Managing Agent
/s/ KELLI L. WILSON Kelli L Wilson Print Name	By: /s/ ROBERT A. GALLINIS Robert A. Gallinis Its: President
/s/ RITA A. HUGHES Rita A. Hughes Print Name	LESSEE: MERRIMACK SERVICES CORPORATION DBA PC CONNECTION SERVICES
/s/ ROBERT A. PRATT Robert A. Pratt Print Name	By: /s/ MARK GAVIN Its: CFO

STATE OF OHIO, COUNTY OF MONTGOMERY, SS:

The foregoing instrument was acknowledged before me this 24th day of April 2003, by Robert A. Gallinis, President of Miller-Valentine Realty, Inc., managing agent for EWE INVESTMENTS V, LTD.

/s/ RITA A HUGHES
Notary Public

RITA A. HUGHES, Notary Public
In and for the State of Ohio
My Commission Expires May 4, 2006

STATE OF NEW HAMPSHIRE, COUNTY OF HILLSBOROUGH, SS:

The foregoing instrument was acknowledged before me this 21st day of April 2003, by Mark Gavin, the CFO of MERRIMACK SERVICES CORPORATION DBA PC CONNECTION SERVICES, a corporation, on behalf of said corporation.

/s/ DOLORES R. COLLINS
Notary Public

DOLORES R. COLLINS, Notary Public
State of New Hampshire
My Commission Expires, January 20, 2004

EXHIBIT 10.50

THIRD AMENDMENT TO THE
AMENDED AND RESTATED
CREDIT AND SECURITY AGREEMENT

AMONG

CITIZENS BANK OF MASSACHUSETTS
(AS LENDER AND AS AGENT)

AND

THE FINANCIAL INSTITUTIONS PARTY HERETO FROM TIME TO TIME
(AS LENDERS)

WITH

PC CONNECTION, INC.
(AS BORROWER)

AND

GOVCONNECTION, INC.
MERRIMACK SERVICES CORPORATION
PC CONNECTION SALES CORPORATION
PC CONNECTION SALES OF MASSACHUSETTS, INC.
MOREDIRECT, INC.
(AS GUARANTORS)

<u>THIRD AMENDMENT TO THE AMENDED AND RESTATED
REVOLVING CREDIT AND SECURITY AGREEMENT</u>

THIS THIRD AMENDMENT TO THE AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT (this "Third Amendment") made as of this 1st day of October 2003, by and among PC Connection Inc., a corporation organized under the laws of the State of Delaware (the "Borrower"), GovConnection, Inc., a corporation organized under the laws of the State of Maryland, Merrimack Services Corporation, a corporation organized under the laws of the State of Delaware, PC Connection Sales Corporation, a corporation organized under the laws of the State of Delaware, PC Connection Sales of Massachusetts, Inc., a corporation organized under the laws of the State of Delaware, MoreDirect, Inc., a corporation organized under the laws of the State of Florida (each a "Guarantor" and collectively the "Guarantors"), the financial institutions which are now or which hereafter become a party hereto (collectively, the "Lenders" and individually a "Lender") and Citizens Bank of Massachusetts ("Citizens"), as agent for Lenders (Citizens, in such capacity, the "Agent"). Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Credit Agreement (as defined below).

<u>Recitals</u>

WHEREAS, the Borrower, the Guarantors, the Lenders and the Agent are parties to an Amended and Restated Credit and Security Agreement dated as of May 31, 2002 (the "Credit Agreement");

WHEREAS, the Borrower desires to amend its existing credit facility with the Agent to extend the term of the Credit Agreement;

WHEREAS, the Borrower desires to amend its existing credit facility with the Agent to provide an additional $20 million of financing to the Borrower; and

WHEREAS, the Agent has agreed to amend its existing credit facility with the Borrower under the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of these premises and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereby amend the Credit Agreement as follows:

Section 1. <u>Amendments to Credit Agreement</u>.

(a) Article II of the Credit Agreement is hereby amended by adding the following Section 2.19 at the end thereof:

"Section 2.19 <u>Increase of Commitments</u>. The Borrower shall have the right, but not the obligation, to increase the Maximum Advance Amount by an aggregate amount not to exceed $20,000,000 under terms and conditions identical to those of the Revolving Advances, such additional amounts to be provided by existing Lenders or other persons who become Lenders in connection therewith; provided that no existing Lender shall be obligated to provide any such Advance in connection with the increase in the Maximum Advance Amount."

(b) Article XIII of the Credit Agreement is hereby amended by deleting the phrase "June 30, 2004" in the first sentence of Section 13.1 in its entirety and substituting therefore the phrase "December 31, 2005".

Section 2. <u>Effectiveness; Conditions to Effectiveness</u>. This Third Amendment will become effective upon execution hereof by the Borrower and the Agent and satisfaction of the following conditions:

(a) The Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to the Agent, of the Board of Directors of Borrower authorizing the execution, delivery and performance of this Third Amendment certified by the Secretary or an Assistant Secretary of Borrower as of the date hereof; and, such certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate.

(b) The Agent shall have received a certificate of the Secretary or an Assistant Secretary of Borrower, dated as of the date hereof, as to the incumbency and signature of the officers of Borrower executing this Third Amendment, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary.

(c) The Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to the Agent, of the Board of Directors of each of the Guarantors authorizing the execution, delivery and performance of this Third Amendment certified by the Secretary or an Assistant Secretary of each of the Guarantors as of the date hereof and, such certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate.

(d) The Agent shall have received a certificate of the Secretary or an Assistant Secretary of each of the Guarantors, dated as of the date hereof, as to the incumbency and signature of the officers of each of the Guarantors executing this Third Amendment, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary.

(e) Other documents, instruments, certificates or information that the Agent may reasonably request.

Section 3. <u>Miscellaneous</u>.

(a) Borrower shall pay to Agent for the benefit of the Lenders a fee of $45,000, which shall be fully earned and nonrefundable upon Borrower's payment of the fee.

(b) The Borrower and each Guarantor hereby confirms to the Agent that the representations and warranties of the Borrower and each Guarantor set forth in Article V of the Credit Agreement (as amended from time to time) are true and correct as of the date hereof (other than those representations and warranties made as of a certain date), as if set forth herein in full.

(c) The Borrower and each Guarantor has reviewed the provisions of this Third Amendment and all documents executed in connection therewith or pursuant thereto or incident or collateral hereto or thereto from time to time and there is no Event of Default thereunder, and no condition which, with the passage of time or giving of notice or both, would constitute an Event of Default thereunder.

(d) The Borrower and each Guarantor agrees that each of the Documents shall remain in full force and effect after giving effect to this Third Amendment. This Third Amendment shall be deemed to be a Document.

(e) This Third Amendment represents the entire agreement among the parties hereto relating to this Third Amendment, and supersedes all prior understandings and agreements among the parties relating to the subject matter of this Third Amendment.

(f) The Borrower and each Guarantor represents and warrants that neither the execution, delivery or performance by the Borrower and each such Guarantor of any of the obligations contained in this Third Amendment or in any Document requires the consent, approval or authorization of any person or governmental authority or any action by or on account of with respect to any person or governmental authority.

(g) The Borrower and each Guarantor waives and releases any claims it may have against, and forever discharges, the Agent and its officers, directors, agents, attorneys, employees, successors and assigns (the “Releasees”) from any claims and causes of action arising out of the transactions referred to or contemplated in any way by the Documents and this Third Amendment or otherwise, including without limitation, claims or defenses it may have to the effect that the Releasees may have in any way acted or failed to act in any manner as to cause injury to the Borrower or anyone claiming by or through them.

(h) The Borrower agrees to pay on demand all of the Agent’s reasonable expenses in preparing, executing and delivering this Third Amendment, and all related instruments and documents, including, without limitation, the reasonable fees and out-of-pocket expenses of the Agent’s counsel and all reasonable travel related expenses of the Agent in connection with any field audits or otherwise. This Third Amendment shall be a Document and shall be governed by and construed and enforced under the laws of the Commonwealth of Massachusetts.

[INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed this Third Amendment under seal as of the date first set forth above.

PC CONNECTION, INC., as Borrower

By: /s/ Mark Gavin

Name: Mark Gavin
Title: CFO

GOVCONNECTION, INC., as Guarantor

By: /s/ Gary Sorkin

Name: Gary Sorkin
Title: President

MERRIMACK SERVICES CORPORATION, as Guarantor

By: /s/ Jack L. Ferguson

Name: Jack L. Ferguson
Title: Treasurer

PC CONNECTION SALES CORPORATION, as Guarantor

By: /s/ Peter Cannone

Name: Peter Cannone
Title: Vice President

PC CONNECTION SALES OF
MASSACHUSETTS, INC., as Guarantor

By: /s/ Robert Wilkins

Name: Robert Wilkins
Title: President

MOREDIRECT, INC., as Guarantor

By: /s/ Scott Modist

Name: Scott Modist
Title: CFO

CITIZENS BANK OF MASSACHUSETTS, as
Lender and as Agent

By: /s/ Michael S. St. Jean

Name: Michael S. St. Jean
Title: Vice President

28 State Street
13th Floor
Boston, Massachusetts 02109

Commitment Percentage: 55.56%

FLEET NATIONAL BANK

By: /s/ Kenneth R. Sheldon

Name: Kenneth R. Sheldon
Title: Vice President

1155 Elm Street
Manchester, NH 03101
Commitment Percentage: 22.22%

GE COMMERCIAL DISTRIBUTION FINANCE CORPORATION

By: /s/ David J. Lynch

Name: David J. Lynch
Title: Vice President - Operations

625 Maryville Centre Drive, 3rd Floor
St. Louis, Missouri 63141-9548
Commitment Percentage: 22.22%

STATE OF New Hampshire

COUNTY OF Hillsborough

On this 22nd day of September, 2003, before me personally came Mark Gavin, to me known, who, being by me duly sworn, did depose and say that he is the CFO of PC Connection, Inc., the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of said corporation.

Given under my hand and seal at Merrimack, NH this 22nd day of September, 2003.

Notary Public	/s/ Delores P Collins
My Commission Expires:	January 20, 2004

STATE OF New Hampshire

COUNTY OF Hillsborough

On this 22nd day of September, 2003, before me personally came Gary Sorkin, to me known, who, being by me duly sworn, did depose and say that he is the President of GovConnection, Inc., the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of said corporation.

Given under my hand and seal at Merrimack, NH this 22nd day of September, 2003.

Notary Public	/s/ Delores P Collins
My Commission Expires:	January 20, 2004

STATE OF New Hampshire

COUNTY OF Hillsborough

On this 23rd day of September, 2003, before me personally came Jack Ferguson, to me known, who, being by me duly sworn, did depose and say that he is the Treasurer of Merrimack Services Corporation, the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of said corporation.

Given under my hand and seal at Merrimack, NH this 23rd day of September, 2003.

Notary Public	/s/ Eileen A Gagnon
My Commission Expires:	August 18, 2004

STATE OF New Hampshire

COUNTY OF Hillsborough

On this 23rd day of September, 2003, before me personally came Peter Cannone, to me known, who, being by me duly sworn, did depose and say that he is the Vice President of PC Connection Sales Corporation, the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of said corporation.

Given under my hand and seal at Merrimack, NH this 23rd day of September, 2003.

Notary Public	/s/ Eileen A Gagnon
My Commission Expires:	August 18, 2004

STATE OF New Hampshire

COUNTY OF Hillsborough

On this 23rd day of September, 2003, before me personally came Robert Wilkins, to me known, who, being by me duly sworn, did depose and say that he is the President of PC Connection Sales of Massachusetts, Inc., the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of said corporation.

Given under my hand and seal at Merrimack, NH this 23rd day of September, 2003.

Notary Public	/s/ Eileen A Gagnon
My Commission Expires:	August 18, 2004

STATE OF Florida

COUNTY Palm Beach

On this 26th day of September, 2003, before me personally came Scott Modist, to me known, who, being by me duly sworn, did depose and say that he is the CFO of MoreDirect, Inc., the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the board of directors of said corporation.

Given under my hand and seal at Boca Raton, FL this 26th day of September, 2003.

Notary Public	/s/ Sylvia Johe
My Commission Expires:	February 11, 2007

ACKNOWLEDGMENT, WAIVER AND AMENDMENT
TO
FINANCING AGREEMENT

This ACKNOWLEDGMENT, WAIVER AND AMENDMENT (“Amendment”) TO THE AGREEMENT FOR INVENTORY FINANCING is made as of November 25, 2003 by and among **PC Connection, Inc.,** duly organized under the laws of the State of Delaware (“PC Connection”), **Merrimack Services Corporation,** a corporation, duly organized under the laws of the State of Delaware (“Merrimack”), **GovConnection, Inc.,** a corporation, duly organized under the laws of the State of Delaware (“Gov Connection”), **MoreDirect, Inc.,** a corporation, duly organized under the laws of the State of Delaware (Merrimack, GovConnection and MoreDirect are referred to herein as a “Customer” or, collectively, the “Customers”) and **IBM Credit LLC,** a Delaware limited liability company (“IBM Credit”).

RECITALS:

WHEREAS, PC Connection, the Customers and IBM Credit have entered into that certain Agreement for Inventory Financing dated as of October 31, 2002 (as amended, supplemented or otherwise modified from time to time, the “Agreement”);

WHEREAS, PC Connection and Customers are in default of the terms and provisions of the Agreement (as more specifically explained in Section 2 hereof);

WHEREAS, each of PC Connection, Inc. and PC Sales Corporation (collectively, the “Guarantors”) have executed and delivered a guaranty in favor of IBM Credit (“Guaranties”);

WHEREAS, the cancellation, effective November 15, 2003, of the contract by and between GovConnection and the General Services Administration (the “GSA Contract”) as further described in that certain letter from PC Connection to Citizens Bank of Massachusetts (“Citizens Bank”) dated November 17, 2003 (the “Cancellation Letter”) (a copy of the Cancellation Letter was provided by PC Connection to IBM Credit on November 17, 2003) constituted an Event of Default under the Agreement, as more specifically described in Section 2, hereof; and

WHEREAS, IBM Credit is willing to waive such default subject to the conditions set forth below.

AGREEMENT

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

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

Section 2. Acknowledgment. Each of PC Connection, the Guarantors and Customers acknowledge that the following Default occurred and is continuing:

the cancellation of the GSA Contract represents a Default under the terms of the Agreement as described more fully under Sections 5.2 (C), 7.1 (F), and 9.1 (D).

Section 3. Waivers to Agreement. Subject to the terms and conditions set forth herein including, without limitation, Section 5 hereof, IBM Credit hereby waives the default of PC Connection and the Customers with the terms of the Agreement to the extent such default is set forth in Section 2 hereof and occurring prior to the date hereof. The waiver shall not be effective until the conditions to effectiveness set forth in Section 5 have been fulfilled to IBM Credit’s satisfaction in its sole discretion and shall not be deemed a waiver of compliance with these Sections after the date hereof.

Section 4. Prior Representations and Warranties. All of the representations and warranties contained in the Agreement and any Other Document are true and correct in all material respects as of the date hereof after giving effect to this Amendment with the same effect as if those representations and warranties had been made on and as of the date hereof (it being understood that any representation or warranty made as of a specified date shall be required to be true and correct in all material respect only as of such specified date and that all references therein to the audited Financial Statements of PC Connection and the Customers shall refer to the most recent audited Financial Statements of PC Connection and the Customers).

Section 5. Conditions to Effectiveness of Waiver. The waiver set forth in Section 3 hereof shall become effective upon the receipt by IBM Credit from Customer of (i) this Amendment executed by PC Connection, the Customers and the Guarantors, (ii) copies of signed waiver agreements by and between PC Connection and the Customers and each of (a) Citizens Bank, (b) GE Commercial Distribution Finance Corporation, and (c) Fleet National Bank each in form an substance reasonably satisfactory to IBM Credit and (iii) a waiver fee, in immediately available funds, equal to Seven Thousand Five Hundred Dollars ($7,500.00) on or prior to December 1, 2003. Such waiver fee payable to IBM Credit hereunder shall be nonrefundable and shall be in addition to any other fees IBM Credit may charge Customers.

Section 6. Additional Requirements. The Agreement is hereby amended by inserting therein the following new section:

Additional Covenants.

(a) Effective immediately, PC Connection and the Customers shall provide to IBM Credit Collateral Management Reports, in form and substance reasonably satisfactory to IBM Credit, as of: (i) the fifth (5th) day of each month for the immediately preceding 15 days of the prior month and (ii) the twentieth (20th) day of each month for the immediately preceding 15 days of the current month.

(b) On or prior to December 15, 2003, PC Connection and the Customers shall provide to IBM Credit, in form and substance reasonably satisfactory to IBM Credit, a reforecast of PC Connection’s earnings and cash flow for fiscal year 2003.

(c) PC Connection and the Customers shall promptly provide or cause its advisors to provide, in any case prior to December 15, 2003, to IBM Credit regular updates, in form and substance reasonably satisfactory to IBM Credit, and copies of any summaries, reports or other communications prepared in connection with the matters to be addressed in connection with PC Connection’s meetings with the Department of Justice, the General Services Administration and any other agency, department or governmental division in connection with the Event of Default described herein, provided that PC Connection shall be under no obligation to provide, or cause any advisors to provide, any of the foregoing to the extent such disclosure would materially and adversely affect PC Connection’s attorney-client privilege.

(d) PC Connection and the Customers shall promptly provide or cause its advisors to provide, in any case with 120 days hereof, to IBM Credit regular updates, in form and substance reasonably satisfactory to IBM Credit, and copies of any summaries, reports or other communications prepared in connection with the findings of PC Connection or PC Connection’s advisors pursuant to the investigation of the allegations and concerns related to government contracting and any other related issues in connection with the Event of Default described herein, provided that PC Connection shall be under no obligation to provide, or cause any advisors to provide, any of the foregoing to the extent such disclosure would materially and adversely affect PC Connection’s attorney-client privilege.

The failure by PC Connection or any Customer to comply with any of the above covenants or the failure of any of the above requirements to be satisfied (within the above time frames) in IBM Credit's determination in its sole discretion shall constitute an immediate Event of Default under the Agreement. In addition, if any event or circumstance results from or arises in connection with PC Connection's meetings with the Department of Justice, the General Services Administration and any other agency, department or governmental division in connection with the default referred to in section 2 hereof and the investigations relating thereto that could have a Material adverse Effect, such event or circumstance shall be an immediate Event of Default under the Agreement and such Event of Default shall not be waived hereunder.

Section 7. Rights and Remedies. Except to the extent specifically waived herein IBM Credit reserves any and all rights and remedies that IBM Credit now has or may have in the future with respect to PC Connection and each Customer, including any and all rights or remedies which it may have in the future as a result of PC Connection's or any Customer's failure to comply with its financial covenants to IBM Credit. Except to the extent specifically waived herein neither this Amendment, any of IBM Credit's actions or IBM Credit's failure to act shall be deemed to be a waiver of any such rights or remedies Except as amended hereby, the Agreement shall remain in full force and effect. This waiver shall not constitute a course of dealing between the parties.

Section 8. Acknowledgment by all the Guarantors. The undersigned Guarantors hereby acknowledge the foregoing waiver and confirm and agree that their Guaranties remain in full force and effect and such Guaranties continue to guaranty the Customer's obligations, indebtedness and liabilities to IBM Credit under the Agreement as amended hereby, and all other obligations as set forth in the Guaranties.

Section 9. Governing Law. This Amendment shall be governed by and interpreted in accordance with the laws which govern the Agreement.

Section 10. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

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

PC Connection, Inc.

By: /s/ Mark Gavin

Print Name: Mark Gavin
Title: SVP of Finance & CFO

Merrimack Services Corporation

By: /s/ Jack Ferguson

Print Name: Jack Ferguson
Title: Treasurer

GovConnection, Inc.

By: /s/ Joel Lipkin

Print Name: Joel Lipkin
Title: Senior Vice President

MoreDirect, Inc.

By: /s/ Scott Modist

Print Name: Scott Modist
Title: CFO

IBM Credit LLC

By: /s/ Sal Grasso

Print Name: Sal Grasso
Title: Mgr of Credit

Acknowledged and Agreed to by:

PC Connection, Inc.

By: /s/ Mark Gavin

Print Name: Mark Gavin
Title: SVP of Finance & CFO

PC Connection Sales Corporation

By: /s/ Peter Cannone

Print Name: Peter Cannone
Title: VP Sales

EXHIBIT 14.1

PC CONNECTION, INC.

CODE OF BUSINESS CONDUCT AND ETHICS

Applicable to All Subsidiaries

I. Purpose.

To establish uniform standards of conduct under which each of the PC Connection, Inc. family of companies will operate and transact business.

II. Application.

This Code of Business Conduct and Ethics (the “Code”) sets forth legal and ethical standards of conduct for directors, officers and employees of PC Connection, Inc. and its subsidiaries: PC Connection Sales Corporation, PC Connection Sales of Massachusetts, Inc., Merrimack Services Corporation, GovConnection, Inc., and MoreDirect, Inc. (hereinafter “Company”).

III. Standards of Conduct.

The Chairman & Chief Executive Officer of the Company expects that all directors, officers and employees will maintain the highest ethical standards in the conduct of Company affairs. This Code is intended to deter wrongdoing and to promote the conduct of all Company business in accordance with high standards of integrity and in compliance with all applicable laws and regulations. Each Employee will conduct the Company’s business with integrity and comply with all applicable laws and regulations, and in a manner that excludes considerations of personal advantage or gain.

If you have any questions regarding this Code or its application to you in any situation, please contact the Vice President of Human Resources or Legal Counsel.

Compliance with Laws, Rules and Regulations

The Company requires that all employees, officers and directors comply with all laws, rules and regulations applicable to the Company wherever it does business. You are expected to use good judgment and common sense in seeking to comply with all applicable laws, rules and regulations and to ask for advice when you are uncertain about them.

If you become aware of the violation of any law, rule or regulation by the Company, whether by its officers, employees, directors, or any third party doing business on behalf of the Company, it is your responsibility to promptly report the matter to the Vice President of Human Resources or Legal Counsel.

It is the Company's desire to have the opportunity to fully address matters internally. You are therefore encouraged to report any illegal activity to the officers identified above. Illegal activities include violation of the securities laws, antitrust laws, environmental laws or any other federal, state or foreign law, rule or regulation. If you believe that your concerns are not being reasonably addressed, you may report such violation directly to the Audit Committee of the Board of Directors.

You may file an anonymous complaint at www.MySafeWorkplace.com. Following an initial investigation, all bona fide complaints will be reported to the Audit Committee.

If, following report to the Audit Committee, you still believe that your concerns are not being reasonably addressed, you may report the violation to the appropriate regulatory authority. Employees, officers and directors shall not discharge, demote, suspend, threaten, harass or in any other manner discriminate or retaliate against an officer, employee, or director because he or she in good faith reports any such violation. This Code should not be construed to prohibit you from testifying, participating or otherwise assisting in any state or federal administrative, judicial or legislative proceeding or investigation.

Conflicts of Interest

Employees, officers and directors must act in the best interests of the Company. You must refrain from engaging in any activity or having a personal interest that presents a "conflict of interest." A conflict of interest occurs when your personal interest interferes, or appears to interfere, with the interests of the Company. A conflict of interest can arise whenever you, as an officer, director or employee, take action or have an interest that prevents you from performing your Company duties and responsibilities honestly, objectively and effectively.

For example:

- No employee, officer or director shall perform services as a consultant, employee, officer, director, advisor or in any other capacity for, or have a financial interest in, a [direct] competitor of the Company, other than services performed at the request of the Company and other than a financial interest representing less than one percent (1%) of the outstanding shares of a publicly-held company; and
- No employee, officer or director shall use his or her position with the Company to influence a transaction with a supplier or customer in which such person has any personal interest, other than a financial interest representing less than one percent (1%) of the outstanding shares of a publicly-held company.
- Supervise, review or influence the job evaluation or compensation of a member of his or her immediate family; or
- Engage in any other activity or have any other interest that the Board of Directors of the Company determines to constitute a conflict of interest.

It is your responsibility to disclose any transaction or relationship that reasonably could be expected to give rise to a conflict of interest to the Vice President of Human Resources or Legal Counsel.

A “close relative” means a spouse, dependent child or any other person living in the same household with the employee, officer or director. “Immediate family” means a close relative and a parent, sibling, child, mother- or father-in-law, son- or daughter-in-law or brother- or sister-in-law. A “significant customer” is a customer that has made during the Company’s last full fiscal year, or proposes to make during the Company’s current fiscal year, payments to the Company for property or services in excess of one (1) percent of (i) the Company’s consolidated gross revenues for its last full fiscal year, or (ii) the customer’s consolidated gross revenues for its last full fiscal year. A “significant supplier” is a supplier to which the Company has made during the Company’s last full fiscal year, or proposes to make during the Company’s current fiscal year, payments for property or services in excess of one (1) percent of (i) the Company’s consolidated gross revenues for its last full fiscal year, or (ii) the customer’s consolidated gross revenues for its last full fiscal year.

Insider Trading

Employees, officers and directors who have material non-public information about the Company or other companies, including our suppliers and customers, as a result of their relationship with the Company are prohibited by law and Company policy from trading in the securities of the Company or such other companies, as well as from communicating such information to others who might trade on the basis of that information. If you are uncertain about the constraints on your purchase or sale of any Company securities, or the securities of any other company that you are familiar with by virtue of your relationship with the Company, you should consult with the Vice President of Human Resources or Legal Counsel before making any such purchase or sale.

Confidentiality

Employees, officers and directors must maintain the confidentiality of sensitive information entrusted to them by the Company or other companies, including our suppliers and customers, except when disclosure is authorized by the Company or legally mandated. Unauthorized disclosure of any confidential information is prohibited. Additionally, employees should take appropriate precautions to ensure that confidential or sensitive business information, whether it is proprietary to the Company or another company, is not communicated within the Company except to employees who have a need to know such information to perform their responsibilities for the Company.

Third parties may ask you for information concerning the Company. Employees, officers and directors (other than the Company’s authorized spokespersons) must not discuss internal Company matters with, or disseminate internal Company information to, anyone outside the Company, except as required in the performance of their Company duties and after an appropriate confidentiality agreement is in place. This prohibition applies particularly to inquiries concerning the Company from the media, market professionals (such as securities analysts, institutional investors, investment advisers, brokers and dealers) and security holders. All responses to inquiries on behalf of the Company must be made only by the Company’s authorized spokespersons. If you receive any inquiries of this nature, you must decline to comment and refer the inquirer to your supervisor or to one of the Company's authorized spokespersons. Questions regarding the Company's disclosure practices should be directed to Corporate Communications.

You must also abide by any lawful obligations that you have to your former employer. These obligations may include restrictions on the use and disclosure of confidential information, restrictions on the solicitation of former colleagues to work at the Company, and non-competition obligations.

Honest and Ethical Conduct, and Fair Dealing

Employees, officers and directors should endeavor to deal honestly, ethically and fairly with the Company's suppliers, customers, competitors and employees. Statements regarding the Company's products and services must not be untrue, misleading, deceptive or fraudulent. You must not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice. The Company's business transactions must always be in compliance with antitrust laws and regulations.

Protection and Proper Use of Corporate Assets

Employees, officers and directors should seek to protect the Company's assets. Theft, carelessness and waste have a direct impact on the Company's financial performance. Employees, officers and directors must use the Company's assets and services solely for legitimate business purposes of the Company and not for any personal benefit or the personal benefit of anyone else.

Employees, officers and directors must advance the Company's legitimate interests when the opportunity to do so arises. You must not take for yourself personal opportunities that are discovered through your position with the Company or the use of property or information of the Company.

Gifts and Gratuities

The use of Company funds or assets for gifts, gratuities or other favors to employees or government officials is prohibited, except to the extent such gifts are in compliance with applicable law, nominal in amount and not given in consideration or expectation of any action by the recipient.

Employees, officers and directors must not accept, or permit any member of his or her immediate family to accept, any gifts, gratuities or other favors from any customer, supplier or other person doing or seeking to do business with the Company, other than items of nominal value. Any gifts that are not of nominal value should be returned immediately and reported to your supervisor. If immediate return is not practical, they should be given to the Company for charitable disposition or such other disposition as the Company believes appropriate in its sole discretion. For the purposes of this Code, a gift of nominal value has a retail value of no more than $25.00.

Common sense and moderation should prevail in business entertainment engaged in on behalf of the Company. Employees, officers and directors should provide, or accept, business entertainment to or from anyone doing business with the Company only if the entertainment is infrequent, modest and intended to serve legitimate business goals.

Bribes and kickbacks are criminal acts, strictly prohibited by law. You must not offer, give, solicit or receive any form of bribe or kickback anywhere in the world.

Accuracy of Books, Records and Public Reports

Employees, officers and directors must honestly and accurately report all business transactions. You are responsible for the accuracy of your records and reports. Accurate information is essential to the Company's ability to meet legal and regulatory obligations.

All Company books, records and accounts shall be maintained in accordance with all applicable regulations and standards, and accurately reflect the true nature of the transactions they record. The financial statements of the Company shall conform to generally accepted accounting rules and the Company's accounting policies. No undisclosed or unrecorded account or fund shall be established for any purpose. No false or misleading entries shall be made in the Company's books or records for any reason, and no disbursement of corporate funds or other corporate property shall be made without adequate supporting documentation.

It is the policy of the Company to provide full, fair, accurate, timely and understandable disclosure in reports and documents filed with, or submitted to, the Securities and Exchange Commission and in other public communications.

Concerns Regarding Accounting or Auditing Matters

Employees with concerns regarding questionable accounting or auditing matters or complaints regarding accounting, internal accounting controls or auditing matters may confidentially, and anonymously if they wish, submit such concerns or complaints in writing to the Company's Legal Counsel, Vice President of Human Resources or Chief Financial Officer. In addition, you may file an anonymous complaint at www.MySafeWorkplace.com. All such concerns and complaints will be forwarded to the Audit Committee of the Board of Directors, unless they are determined to be without merit by the Legal Counsel and Chief Financial Officer of the Company. In any event, a complete record of all complaints will be provided to the Audit Committee each fiscal quarter. Any such concerns or complaints may also be communicated, confidentially and, if you desire, anonymously, directly to any member of the Audit Committee of the Board of Directors.

The Audit Committee will evaluate the merits of any concerns or complaints received, and will authorize such follow-up actions, if any, as it deems necessary or appropriate to address the substance of the concern or complaint. The Company will establish a toll-free telephone number where you may leave a confidential or anonymous message for the Audit Committee. The telephone number will be posted on the Company's Worknet website.

The Company will not discipline, discriminate against or retaliate against any employee who reports a complaint or concern (unless the employee is found to have knowingly and willfully made a false report).

Waivers of the Code of Business Conduct and Ethics

While some of the policies contained in this Code must be strictly adhered to and no exceptions can be allowed, in other cases exceptions may be possible. Any employee or officer who believes that an exception to any of these policies is appropriate in his or her case should first contact his or her immediate supervisor. If the supervisor agrees that an exception is appropriate, the approval of the Company's Legal Counsel, Vice President of Human Resources and Chief Financial Officer must be obtained. The Legal Counsel shall be responsible for maintaining a complete record of all requests for exceptions to any of these policies and the disposition of such requests.

Any executive officer or director who seeks an exception to any of these policies should contact the CEO. Any waiver of this Code for executive officers or directors or any change to this Code that applies to executive officers or directors may be made only by the Board of Directors of the Company and will be disclosed as required by law or listing regulation.

Reporting and Compliance Procedures

Every employee, officer and director has the responsibility to ask questions, seek guidance, report suspected violations and express concerns regarding compliance with this Code. Any employee, officer or director who knows or believes that any other employee or representative of the Company has engaged or is engaging in Company-related conduct that violates applicable law or this Code should report such information to Vice President of Human Resources or Legal Counsel.

You may report such conduct openly or anonymously at www.MySafeWorkplace.com without fear of retaliation. The Company will not discipline, discriminate against or retaliate against any employee who reports such conduct in good faith, whether or not such information is ultimately proven to be correct, or who cooperates in any investigation or inquiry regarding such conduct. Any supervisor who receives a report of a violation of this Code must immediately inform the Vice President of Human Resources or Legal Counsel.

You may report violations of this Code, on a confidential or anonymous basis, by contacting the Company's Vice President of Human Resources or Legal Counsel by fax, mail or e-mail. The Company will establish a toll-free telephone number where you may leave a recorded message about any violation or suspected violation of this Code. While we prefer that you identify yourself when reporting violations so that we may follow up with you as necessary for additional information, you may leave messages anonymously. The telephone number will be posted on the Company's Worknet website.

If the Vice President of Human Resources or Legal Counsel receives information regarding an alleged violation of this Code, he or she shall, as appropriate, (a) evaluate such information, (b) inform the Chief Executive Officer and Board of Directors if the alleged violation involves an executive officer or a director, (c) determine whether it is necessary to conduct an informal inquiry or a formal investigation and, if so, initiate such inquiry or investigation, and (d) report the results of any such inquiry or investigation, together with a recommendation as to disposition of the matter, to the Chief Executive Officer for action, or if the alleged violation involves an executive officer or a director, report the results of any such inquiry or investigation to the Board of Directors or a committee thereof. Employees, officers and directors are expected to cooperate fully with any inquiry or investigation by the Company regarding an alleged violation of this Code. Failure to cooperate with any such inquiry or investigation may result in disciplinary action, up to and including discharge.

The Company shall determine whether violations of this Code have occurred, and if so, shall determine the disciplinary measures to be taken. In the event that the alleged violation involves an executive officer or a director, the Chief Executive Officer and the Board of Directors, respectively, shall determine whether a violation of this Code has occurred and, if so, shall determine the disciplinary measures to be taken against such executive officer or director.

Failure to comply with the standards outlined in this Code will result in disciplinary action including, but not limited to, reprimands, warnings, probation or suspension without pay, demotions, reductions in salary, discharge and restitution. Certain violations of this Code may require the Company to refer the matter to the appropriate governmental or regulatory authorities for investigation or prosecution. Moreover, any supervisor who directs or approves of any conduct in violation of this Code, or who has knowledge of such conduct and does not immediately report it, also will be subject to disciplinary action, up to and including discharge.

Dissemination and Amendment

This Code shall be distributed to each new employee, officer and director of the Company upon commencement of his or her employment or other relationship with the Company. It shall also be distributed annually to each employee, officer and director of the Company. Each employee, officer and director shall certify below that he or she has received, read and understands the Code and has complied with its terms.

The Company reserves the right to amend, alter or terminate this Code at any time for any reason. The most current version of this Code can be found in on the Company’s Worknet website.

This document is not an employment contract between the Company and any of its employees, officers or directors and does not alter the Company’s at-will employment policy.

Certification

I, ______________________________ do hereby certify that:

(Print Name Above)

1. I have received and carefully read the Code of Business Conduct and Ethics of PC Connection, Inc.
2. I understand the Code of Business Conduct and Ethics.
3. I have complied and will continue to comply with the terms of the Code of Business Conduct and Ethics.

Date: ____________ ____

(Signature)

EACH EMPLOYEE, OFFICER AND DIRECTOR IS REQUIRED TO SIGN, DATE AND RETURN THIS CERTIFICATION TO THE HUMAN RESOURCES DEPARTMENT. FAILURE TO DO SO MAY RESULT IN DISCIPLINARY ACTION.

EXHIBIT 21.1

CORPORATE ORGANIZATIONAL STRUCTURE:

PC Connection, Inc., a Delaware corporation, is the parent company of the following wholly owned subsidiaries:

1. PC Connection Sales Corporation, a Delaware corporation.

2. PC Connection Sales of Massachusetts, Inc., a Delaware corporation. (subsidiary of PC Connection Sales Corporation).

3. Merrimack Services Corporation, a Delaware corporation.

4. GovConnection, Inc. (formerly Comteq Federal, Inc.), a Maryland corporation.

5. MoreDirect, Inc., a Florida corporation.

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos., 333-40172, 333-50845, 333-50847, 333-66450, 333-69981, 333-83943, 333-91584, and 333-106652 of PC Connection, Inc. on Form S-8 of our report dated March 18, 2004 (which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" in 2002), appearing in this Annual Report on Form 10-K of PC Connection, Inc. for the year ended December 31, 2003.

Deloitte & Touche LLP

Boston, Massachusetts
March 29, 2004

Exhibit 31.1

CERTIFICATIONS

I, Patricia Gallup, certify that:

1. I have reviewed this Annual Report on Form 10-K of PC Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986];
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2004

/s/ PATRICIA GALLUP

Patricia Gallup
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Mark Gavin, certify that:

1. I have reviewed this Annual Report on Form 10-K of PC Connection, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986];
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2004

/s/ MARK GAVIN

Mark Gavin
Senior Vice President of Finance and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of PC Connection, Inc. (the "Company") for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Patricia Gallup, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

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

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

/S/ PATRICIA GALLUP

Dated: March 30, 2004

Patricia Gallup
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to PC Connection, Inc. and will be retained by PC Connection, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of PC Connection, Inc. (the "Company") for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark Gavin, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

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

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

/S/ MARK GAVIN

Dated: March 30, 2004

Mark Gavin
Senior Vice President of Finance and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to PC Connection, Inc. and will be retained by PC Connection, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.