

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

OR

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

For the transition period from

to

Commission File Number 0-23827

PC CONNECTION, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

02-0513618
(I.R.S. Employer Identification No.)

730 Milford Road
Merrimack, New Hampshire
(Address of principal executive offices)

03054
(Zip Code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	Nasdaq Global Select Market

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

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

YES NO

The aggregate market value of the registrant's voting shares of common stock held by non-affiliates of the registrant on June 30, 2011, based on \$8.28 per share, the last reported sale price on the Nasdaq Global Select Market on that date, was \$75,963,303.

The number of shares outstanding of each of the registrant's classes of common stock, as of February 15, 2012:

<u>Class</u>	<u>Number of Shares</u>
Common Stock, \$.01 par value	26,441,284

The following documents are incorporated by reference into the Annual Report on Form 10-K: Portions of the registrant's definitive Proxy Statement for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Report.

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PART I

Item 1. Business

GENERAL

We are a leading direct marketer of a wide range of information technology, or IT, solutions. We help companies design, enable, manage, and service their IT environments. We provide IT products, 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 an extensive range of services involving design, configuration, and implementation of IT solutions. These services are performed by our personnel and by third-party providers. We have four operating segments, which serve primarily: (a) small- to medium-sized businesses, or SMBs, through our PC Connection Sales subsidiary, (b) large enterprise customers, in Large Account, through our MoreDirect and ValCom Technology, or ValCom, subsidiaries, (c) federal, state, and local government and educational institutions, in Public Sector, through our GovConnection subsidiary, and (d) consumers and small office/home office, or Consumer/SOHO, customers through our PC Connection Express division. We generate sales through (i) outbound telemarketing and field sales contacts by sales representatives focused on the business, educational, and government markets, (ii) our websites, and (iii) inbound calls from customers responding to our catalogs and other advertising media. We offer a broad selection of over 300,000 products at competitive prices, including products from Acer, Apple, Cisco Systems, Hewlett-Packard, IBM, Lenovo, Microsoft, Sony, Symantec, and Toshiba. Our most frequently ordered products are carried in inventory and are typically shipped to customers the same day the order is received.

Since our founding in 1982, we have consistently 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 Fortune 1000 and the VARBusiness 500 for eleven straight years. Over the past few years, we have received various awards, including first place by InformationWeek 500 in the Supply Chain Innovation and Retail Industry categories, and were ranked eighth overall among the nation's most innovative companies by InformationWeek.

We believe that our ability to understand our customers' needs and provide comprehensive and effective IT solutions has resulted in strong brand name recognition and a broad and loyal customer base. Approximately 95% of our sales in the year ended December 31, 2011 were made to customers who had previously purchased products from us. We also believe that through our strong vendor relationships we can provide an efficient supply chain and be an effective IT solution provider for our multiple customer segments.

We strive to identify the unique needs of our corporate, government, educational, and consumer/SOHO customers, and have designed our business processes to enable our customers to effectively manage their IT systems. We provide value by offering our customers efficient design, deployment, and infrastructure management of IT environments. As of December 31, 2011, we employed 666 sales representatives, whose average tenure exceeded four years. Sales representatives are responsible for managing corporate and public sector accounts and focus on outbound sales calls to current and prospective customers. These sales representatives are supported by a growing group of technical sales specialists, or TSSs, who provide technical support for more complex sales opportunities. We believe that increasing our sales representatives' productivity is important to our future success, and we have increased our investments in this area accordingly.

We market our products and services through our websites: www.pconnection.com, www.moredirect.com, www.govconnection.com, www.pconnectionexpress.com, www.valcomtechnology.com, and www.macconnection.com. Our websites provide extensive product information, customized pricing, and the convenience of online orders. For the fiscal year 2011, Internet sales processed directly online were \$742.5 million, or 35.3% of net sales, compared to \$605.9 million, or 30.7% of net sales in 2010.

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We also publish several catalogs, including PC Connection®, focusing on PCs and compatible products, MacConnection®, focusing on Apple personal computers and compatible products, and PC Connection Express®, serving our consumer and SOHO customers. We also issue, from time to time, specialty catalogs, including GovConnection catalogs directed to government and educational institutions. With concise product descriptions, relevant technical information, and illustrations, 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 six million catalogs in 2011.

Additional financial information regarding our business segments and geographic data about our customers and assets is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II, and in Note 16 to our Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and accordingly, we file reports, proxy and information statements, and other information with the Securities and Exchange Commission, or the SEC. Such reports and information can be read and copied at the public reference facilities maintained by the SEC at the Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website (<http://www.sec.gov>) that contains such reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We maintain a corporate website with the address www.pcconnection.com. We are not including the information contained in our website as part of, or incorporating by reference into, this annual report on Form 10-K. We make available free of charge through our website 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 SEC.

MARKET AND COMPETITION

We generate approximately 41% of our sales from the SMB market, 34% from medium-to-large corporate accounts (Fortune 1000), 22% from government and educational institutions, and 3% from the Consumer/SOHO market. The overall IT market that we serve is estimated to be in excess of \$160 billion.

The largest segment of this market is served by local and regional "value added resellers," or VARs, many of whom we believe are transitioning from the hardware and software business to IT services, which generally have higher margins. We have transitioned from an end-user or desktop-centric computing supplier to a network or enterprise-wide IT solutions supplier. We have also partnered with third-party technology and telecommunications service providers. We now offer our customers access to the same services and technical expertise as local and regional VARs, but with a more extensive product selection at lower prices.

Intense competition for customers has led manufacturers of PCs and related products to use all available channels, including direct marketers, to distribute products. Certain manufacturers who have traditionally used resellers to distribute their products have, from time to time, established their own direct marketing operations, including sales through the Internet. Nonetheless, 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 and profitability for cost-effective operation;
- 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;

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- 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

We believe we become our customers' IT provider of choice by providing innovative IT solutions which meet our customers' needs of increased productivity, mobility, virtualization, and security in a continually evolving IT environment. We provide enhanced value by assisting them in cost-effectively maximizing business opportunities provided by new technologies and advanced service solutions. The key elements of our business strategies include:

- ***Providing consistent 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 have dedicated our resources to developing strong, long-term relationships with our customers by accurately assessing their IT needs, and providing scalable, high-quality solutions and services through our knowledgeable, well-trained personnel. Through operational excellence, we have efficient delivery programs that provide a quality buying experience for our customers with reasonable return policies.
- ***Offering a broad product selection at competitive prices.*** We offer a broad range of IT products and solutions, including personal computers and related peripheral products, servers, storage, and networking infrastructure, at costs that allow our customers to be more productive while maximizing their IT budgets. We offer products and enhanced service capabilities with aggressive price and performance standards, all with the convenience of one-stop shopping for business and personal technology and solutions.
- ***Simplifying technology product procurement for corporate customers.*** We offer Internet-based procurement options to eliminate complexity that does not generate customer value, as well as lower the cost of procurement for our customers. One of our Large Account subsidiaries, MoreDirect, specializes in Internet-based solutions and provides electronic integration between its customers and suppliers.
- ***Offering targeted IT solutions.*** Our customers seek solutions to increasingly complex IT infrastructure demands. To better address their business needs, we have focused our solution service capabilities on four practice areas—Lifecycle, Data Center, Networking, and Software. These IT practice groups are responsible for understanding the infrastructure needs of our customers, and for designing cost-effective technology solutions to address them. We have also partnered with third-party providers to make available a range of IT support services, including asset assessment, implementation, maintenance, and disposal services. We believe we can leverage these four practice groups to transform our company into a recognized IT solution provider, which will enable us to capture a greater share of the IT expenditures of our customers.
- ***Maintaining a strong brand name and customer awareness.*** Since our founding in 1982, we have built a strong brand name and customer awareness. We have been named to the Fortune 1000 and the VARBusiness 500 for each of the last eleven years. In 2007, Forbes Magazine acknowledged us as one of America's most trustworthy companies reflecting our commitment to maintaining a corporate environment that fosters high ethical standards. Our mailing list of customers and prospects includes more than 4,800,000 names. We actively work with our existing customers to become their IT provider of choice for products and enhanced solution services, while ensuring our reputation of high-quality customer service, tailored marketing programs, and competitive pricing lead the way to expanding our share of the overall IT market.
- ***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

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systems to end users. By working closely with our vendors to provide an efficient channel for the advertising and distribution of their products, we expect to expand market share and generate opportunities for optimizing partner incentive programs.

GROWTH STRATEGIES

Our growth strategies are designed to increase revenues by maximizing operational efficiencies while offering innovative products and value added service offerings, increasing penetration of our existing customers, and expanding our customer base. Our five key elements of growth are:

- **Expanding hardware and software offerings.** We offer our customers an extensive range of IT hardware and software products, and in response to customer demand, we continually evaluate and add new products as they become available. We work closely with vendors to identify and source first-to-market product offerings at aggressive prices.
- **Expanding IT solution services offerings.** We strive to accelerate solution and service growth by providing creative solutions to the increasingly complex hardware and software needs of our customers. Our four IT services practice groups—Lifecycle, Data Center, Networking, and Software—consist of industry-certified and product-certified engineers, as well as highly specialized third-party providers. Our investment in these four practice areas is expected to increase our share of our customer's annual IT expenditures by broadening the range of products and services they purchase from us.
- **Targeting customer segments.** Through increased targeted marketing, we seek to expand the number of our active customers and generate additional sales to existing customers by providing more value-added services and solutions. We have developed specialty catalogs 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. We also utilize Internet marketing campaigns that focus on select markets.
- **Increasing productivity of our sales representatives.** We believe that higher sales productivity is the key to leveraging our expense structure and driving future profitability improvements. We invest significant resources in training new sales representatives, and provide ongoing training to experienced personnel. Our training and evaluation programs are focused towards assisting our sales personnel in understanding and anticipating clients' IT needs, with the goal of fostering loyal customer relationships. We also provide our sales representatives with technical support on more complex sales opportunities through our expanding group of TSSs.
- **Pursuing strategic acquisitions and alliances.** We seek acquisitions and alliances that add new customers, strengthen our product offerings, add management talent, and produce operating results which are accretive to our core business earnings.

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 support, 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 9:00 a.m. through 5:30 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

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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 transmit our customer orders either to our distribution center or to our drop-ship suppliers, depending on product availability, for processing immediately after a customer receives credit approval. At our distribution center, we also perform custom configuration of computer systems as requested by our customers, which typically consists of the installation of memory, accessories, and/or software purchased. Our customers may select the method of delivery that best meets their needs and is most cost effective, ranging from expedited overnight delivery for urgently needed items to ground freight, generally used for heavier, more bulky items. Through our Everything Overnight® service, orders accepted up to 7:00 p.m. Eastern Time can be shipped for overnight delivery from our distribution center.

Our inventory stocking levels are based on three primary criteria. First, we stock and maintain a large quantity of products that sell through quickly (such as notebook and desktop systems, printers, and monitors). Second, we stock products obtained through opportunistic purchases (including first-to-market and end-of-life special promotions, and popular products with limited availability). Third, we stock products in common demand, such as components we use to configure systems prior to shipping, for which we want to avoid shortages. Inventory stocking decisions are made generally independent of the level of shipping service, as expedited shipping, including overnight delivery, is available through the majority of our drop-ship suppliers as well as through our warehouse.

MARKETING AND SALES

We sell our products through our direct marketing channels to SMBs, Consumer/SOHOs, government and educational institutions, and medium-to-large corporate accounts. We strive to be the primary supplier of IT products and solutions, including personal computers and related products, to our existing customers and to our expanding customer base. We use multiple marketing approaches to reach existing and prospective customers, including:

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

All of our marketing approaches emphasize our broad product offerings, fast delivery, customer support, competitive pricing, and our wide range of service solutions.

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 sales personnel and programs. Because our customers' primary contact with us is through our sales representatives, we are committed to maintaining a qualified, knowledgeable, and motivated sales staff with its principal focus on customer service.

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

<u>Sales Channel</u>	<u>Years Ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Outbound Telemarketing and Field Sales	64%	68%	69%
Internet Sales	35	31	30
Inbound Telesales	<u>1</u>	<u>1</u>	<u>1</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Outbound Telemarketing and Field Sales. We seek to build loyal relationships with potential high-volume customers by assigning them to individual account managers. We believe that customers respond favorably to one-on-one relationships 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 IT 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 twelve months of training and experience.

Internet Sales. (www.pconnection.com, www.moredirect.com, www.govconnection.com, www.valcomtechnology.com, www.pconnectionexpress.com, and www.macconnection.com) We provide product descriptions and prices for generally all products online. Our PC Connection website also provides updated information for more than 300,000 items and on-screen images for more than 185,000 items. We offer, and continuously update, selected product offerings and other special buys. We believe our websites are an important sales source and communication tool for improving customer service.

Our MoreDirect subsidiary's business process and operations are primarily Web based. In 2011, more than 75% of MoreDirect's orders were received via the Internet. Most of its corporate customers utilize a customized Web page to quickly search, source, and track IT products. MoreDirect's website aggregates the current available inventories of its largest IT suppliers into a single on line source for its corporate customers. Its custom designed Internet-based system, TRAXX™, provides corporate buyers with comparative pricing from several suppliers as well as special pricing arranged through the manufacturer.

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 telephone, over the Internet, e-mail, fax, or mail.
- *Lowering transactions costs*—Our website tools include robust product search features and Internet Business Accounts (customized Web pages), which allow customers to quickly and easily find information about products of interest to them. If customers still have questions, they may call our telesales representatives or account managers. Such phone calls are typically shorter and have higher close rates than calls from customers who have not first visited our websites.
- *Leveraging the time of experienced sales representatives*—Our investments in technology-based sales and service programs allow our sales representatives more time to build and maintain relationships with our customers and help them to solve their business problems.

Inbound Telesales. Our inbound sales representatives answer customer telephone calls generated by our catalogs and other advertising programs. They 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. Our inbound sales personnel have decreased in recent years reflecting increased Internet usage by our consumer and SOHO customers.

Business Segments. We conduct our business operations through four business segments: SMB, Large Account, Public Sector, and Consumer/SOHO.

SMB Segment. Our principal target customers in this segment are small-to-medium-sized business customers with 20 to 1,000 employees. We use a combination of outbound telemarketing, including some on-site sales solicitation by business development managers, and Internet sales through Internet Business Accounts, to reach these customers.

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Large Account Segment. Through our MoreDirect subsidiary's custom designed Web-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 and services. MoreDirect's strategy is to be the primary single source procurement portal for its large corporate customers. MoreDirect's sales representatives typically have ten to twenty years of experience and are located strategically across the United States. This allows them to work directly with customers, often on site. MoreDirect generally places its product orders with manufacturers and/or distribution companies for drop shipment directly to its customers. Through our newly acquired subsidiary, ValCom, we offer advanced network, server, storage, and mission-critical onsite installation and support using proprietary cloud-based service management software.

Public Sector Segment. We use a combination of outbound telemarketing, including some on-site sales solicitation by field sales account managers, and 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-12, and state and local governments.

Consumer/SOHO Segment. In January 2010, we formed a new consumer sales company, PC Connection Express, Inc., to focus on the consumer and SOHO customer. Our primary means of marketing to these customers consists of Internet sales and inbound sales representatives. Prior period sales and operating results relating to consumer and SOHO customers were reported primarily within our SMB segment. We have revised the reporting of operating segments to reflect the basis for assessing performance and allocating resources. Under this revised reporting structure, the 2009 operating results related to our consumer and SOHO customers that were formerly reported within the SMB segment were excluded from that segment for comparative purposes.

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

<i>Business Segment</i>	Years Ended December 31,		
	2011	2010	2009
SMB	41%	42%	42%
Large Account	34	31	27
Public Sector	22	23	25
Consumer/SOHO	3	4	6
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Catalog Distribution. We publish a variety of catalogs, including PC Connection® for the PC market, MacConnection® for the Apple market, and PC Connection Express® for the consumer market. In 2011, we published 12 editions of PC Connection®, and 8 each of MacConnection® and PC Connection Express®. We distribute catalogs to purchasers on our in-house mailing list as well as to prospective customers. In addition, we distribute specialty catalogs to educational and government customers and prospects on a periodic basis. We also distribute our monthly catalogs customized with special covers and inserts, offering a wide assortment of special offers on products in specific areas such as graphics, server/netcom, and mobile computing, or for specific customers, such as developers.

Specialty Marketing. Our specialty marketing activities include direct mail, other inbound and outbound telemarketing services, bulletin board services, package inserts, fax broadcasts, and electronic mail.

Customers. We maintain an extensive database of customers and prospects currently aggregating more than 4,800,000 names. Approximately 95% of our sales in the year ended December 31, 2011 was made to customers who had previously purchased products from us. Except for sales to the federal government, which accounted for approximately 8.4% of consolidated revenues, no single customer accounted for more than 3% of our consolidated revenue in 2011. The loss of any single customer, with the exception of the federal government, will

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not have a material adverse effect on any of our business segments. In addition, we do not have individual orders in our backlog that are material to our business, as we typically ship products within hours of receipt of orders.

PRODUCTS AND MERCHANDISING

We continuously focus on expanding the breadth of our product offerings. We currently offer our customers over 300,000 information technology products designed for business applications from more than 1,600 manufacturers, including hardware and peripherals, accessories, networking products, and software. We select the products we sell based upon their technology and effectiveness, market demand, product features, quality, price, margins, and warranties. The following table sets forth our percentage of net sales (in dollars) for major product categories:

	PERCENTAGE OF NET SALES		
	Years Ended December 31,		
	2011	2010	2009
Notebook	18%	17%	15%
Desktop/Server	16	16	13
Software	15	14	14
Net/Com Product	10	10	11
Video, Imaging and Sound	10	12	14
Printer and Printer Supplies	7	8	8
Storage Device	7	7	8
Memory and System Enhancements	4	4	4
Accessory/Other	13	12	13
Total	100%	100%	100%

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

During the year ended December 31, 2011, we shipped approximately 65% of our sales directly from our distribution partners, and the balance was shipped from our distribution facility in Wilmington, Ohio. For the years ended December 31, 2011, 2010, and 2009, product purchases from Ingram Micro, Inc., our largest vendor, accounted for 25%, 25%, and 23%, respectively, of our total product purchases. Purchases from Synnex comprised 14%, 12%, and 11% of our total product purchases in 2011, 2010, and 2009, respectively. Purchases from Tech Data Corporation comprised 12%, 14%, and 15% of our total product purchases in 2011, 2010, and 2009, respectively. Purchases from Hewlett-Packard, or HP, comprised 10%, 9%, and 10% of our total product purchases in 2011, 2010, and 2009, respectively. No other vendor accounted for more than 10% of our total product purchases in the years ended December 31, 2011, 2010, or 2009. We believe that, while we may experience some short-term disruption, alternative sources for products obtained directly from Ingram Micro, Tech Data, Synnex, and HP are available to us.

Products manufactured by HP represented 28% of our net sales in both years ended December 31, 2011 and 2010, and 26% for the year ended December 31, 2009. We believe that in the event we experience either a short-term or permanent disruption of supply of HP products, such disruption would likely have a material adverse effect on our results of operations and cash flows.

Many product suppliers reimburse us for advertisements or other cooperative marketing programs in our catalogs and other marketing vehicles. Reimbursements may be in the form of discounts, advertising allowances,

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and/or rebates. We also receive allowances 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 product and other special purchases which may not be eligible for price protection.

We believe that we have excellent relationships with our vendors. We generally pay vendors within stated terms, or earlier when favorable cash discounts are offered. We believe that because of the volume of our 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 products are available in substantially all of the merchandise categories offered by us.

DISTRIBUTION

We fulfill orders from customers both from products we hold in inventory and through drop shipping arrangements with manufacturers and distributors. 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 various sales facilities to our Wilmington distribution center after credit approval, where packaging documentation is printed automatically and order fulfillment takes place. Our customers are given several shipping options, ranging from expedited overnight delivery through our Everything Overnight® service to normal ground freight service. Through our Everything Overnight® service, orders accepted up until 7:00 p.m. Eastern Time, can be shipped for overnight delivery via United Parcel Service ("UPS") or FedEx Corporation from our distribution center. 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. Our MoreDirect subsidiary generally utilizes drop shipping for substantially all product orders. 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 initial recording of the transaction. At the end of each financial reporting period, revenue is adjusted to reflect the anticipated receipt of products by the customers in the period. Products drop shipped by suppliers were 65% of net sales in 2011 and 63% of net sales in 2010. In future years, we expect that products drop shipped from suppliers will continue to 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.

Certain of our larger customers occasionally request special staged delivery arrangements under which either we or our distribution partners set aside and temporarily hold inventory on our customer's behalf. Such orders are firm delivery orders, and customers generally pay under normal credit terms, regardless of delivery. Revenue on such transactions is not recorded until shipment to their final destination as requested by the customer. Inventory held for such staged delivery requests aggregated \$15.0 million and \$10.3 million at December 31, 2011 and 2010, respectively.

We maintain inventories of fast moving products to meet customer demand, representing products that account for a high percentage of our ongoing product sales transactions and sales dollars. We may also, from time to time, make large inventory purchases of certain first-to-market products or end-of-life products to obtain favorable purchasing discounts. We also maintain sufficient inventory levels of common-demand components and accessories used for configuration services.

MANAGEMENT INFORMATION SYSTEMS

Our subsidiaries utilize management information systems which have been significantly customized for our use. These systems permit centralized management of key functions, including order taking and processing,

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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™. This system is an integrated application of sales order processing, integrated supply chain visibility, and has full EDI links with major manufacturers' distribution partners for product information, availability, pricing, ordering, delivery, and tracking, including related accounting functions.

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 continue upgrading our information systems in the future to more effectively manage our operations and customer database.

In 2009, we began a comprehensive review and assessment of our entire business software needs. That review and assessment includes the review of commercially available software that meets, or can be configured to meet, those needs better than our existing software. As of December 31, 2011, we have capitalized \$8.3 million of software and integration costs for the Customer Master Data Management, or MDM, software project, the first stage of our overall IT initiative. While we have not finalized our decisions regarding to what extent new software will be acquired and implemented beyond the Customer MDM software we have acquired to date, the additional capital costs of the entire project, if fully implemented, would likely exceed \$20.0 million over the next three years. For further discussion see "Liquidity and Capital Resources" of Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K.

COMPETITION

The direct marketing and sale of IT products, including personal computers and related products, is highly competitive. We compete with other direct marketers of IT products, including CDW Corporation and Insight Enterprises, Inc., who are much larger than we are. We also compete with:

- certain product manufacturers that sell directly to customers, such as Dell Inc., as well as some of our own suppliers, such as HP, Lenovo, and Apple;
- distributors that sell directly to certain customers;
- local and regional VARs;
- various franchisers, office supply superstores, and national computer retailers; and
- companies with more extensive websites 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 than we are and have substantially greater financial resources. These and other factors related to our competitive position are discussed more fully in the "Overview" of Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K.

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®, MoreDirect®, GovConnection®, PC Connection Express®, MacConnection®, and their related logos; Everything Overnight®, The Connection®, Raccoon Character®, Service Connection®, HealthConnection®, ProConnection™, TRAXX™, Graphics Connection®, Education Connection®, Get Connected®, Connect®, Your Brands, Your Way, Next Day®, and WebSPOC®. 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, with respect to the products we both sell and use.

WORK FORCE

As of December 31, 2011, we employed 1,901 persons (full-time equivalent), of whom 939 (including 293 management and support personnel) were engaged in sales-related activities, 349 were engaged in providing IT services and customer service and support, 308 were engaged in purchasing, marketing, and distribution-related activities, 98 were engaged in the operation and development of management information systems, and 207 were engaged in administrative and finance functions. We consider our employee relations to be good. Our employees are not represented by a labor union, and we have never experienced a labor related work stoppage.

Item 1A. Risk Factors

Statements contained or incorporated by reference in this Annual Report on Form 10-K that are not based on historical fact are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of management including, without limitation, our expectations with regard to 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. Forward-looking statements may be identified by the use of forward-looking terminology such as “may,” “could,” “will,” “expect,” “estimate,” “anticipate,” “continue,” or similar terms, variations of such terms or the negative of those terms.

We cannot assure investors that our assumptions and expectations will prove to have been correct. Important factors could cause our actual results to differ materially from those indicated or implied by forward-looking statements. Such factors that could cause or contribute to such differences include those factors discussed below. We undertake no intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. If any of the following risks actually occur, our business, financial condition, or results of operations would likely suffer.

The uncertainty in economic conditions and the financial markets may adversely affect our business and reduce our operating results.

Our business has been affected by changes in economic conditions that are outside of our control, including reductions in business and consumer activity. Continuing economic weakness and turmoil in financial markets have resulted in recessionary pressures and declines in consumer confidence and spending. Businesses in turn reacted to the decline in consumer spending by reducing staffing levels and delaying or deferring corporate spending, including their IT expenditures. In 2009, both our SMB and Large Account segments, which serve small, medium, and large businesses, experienced significant declines in revenues and increased competitive pricing pressures, which adversely affected our operating results. The turmoil in financial markets also resulted in a substantial tightening of the credit markets, which increased the cost of capital and reduced the availability

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of credit to our customers. Although businesses have increased their IT spending in the past two years, considerable uncertainty exists regarding the momentum of the recovery and expected economic conditions. Future delays or reductions in IT spending could have a material adverse effect on demand for our products and consequently on our financial results. In addition, customer insolvencies could impact our ability to collect receivables and negatively impact our operating results and liquidity.

It is difficult to predict how long the uncertainty in economic conditions and the financial markets will continue, the extent, if any, to which they may deteriorate, and to which our business may be adversely affected. However, if the IT spending should again decline, we are likely to experience an adverse impact, which may be material on our business and our results of operations.

Should our financial performance not meet expectations and our stock price trade below current levels, we may be required to record a significant charge to earnings for impairment of goodwill and other intangibles.

We test goodwill for impairment on January 1st of each year, and more frequently if potential impairment indicators arise. Although we determined the fair values of the goodwill held by our two reporting units substantially exceeded the respective carrying values at our annual impairment test, should the financial performance of either of the reporting units not meet expectations due to the economy or otherwise, we would likely adjust downward its expected future operating results and cash flows. Such adjustment may result in a determination that the carrying values for goodwill and other intangibles for that reporting unit exceed its fair value. This determination may in turn require that we record a significant non-cash charge to earnings to reduce the \$51.3 million aggregate carrying amount of goodwill and the indefinite lived trademark held by the Large Account operating segment, resulting in a negative effect on our results of operations.

We have experienced variability in sales, and there is no assurance that we will be able to maintain profitable operations.

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

- shifts in customer demand for hardware and software products, including demand for total solutions;
- loss of customers to competitors;
- industry shipments of new products or upgrades;
- changes in vendor distribution of products;
- changes in our product offerings and in merchandise returns;
- the timing of new merchandise and catalog offerings;
- fluctuations in shipping, printing, postage, and paper costs;
- fluctuations in response rates; and
- adverse weather conditions that affect response, distribution, or shipping.

Our results also may vary based on our ability to manage personnel levels in response to fluctuations in revenue. We base personnel levels and other operating expenditures on sales forecasts. If our revenues do not meet anticipated levels 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 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

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compete with other direct marketers of hardware and software and computer related products, including CDW Corporation and Insight Enterprises, Inc., who are much larger than we are. Certain hardware and software vendors, such as Apple, Dell, Lenovo, and HP, who provide products to us, also sell their products directly to end users through their own catalogs, stores, and via the Internet. We compete not only for customers, but also for advertising support from personal computer product manufacturers. Some of our competitors have larger 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 pricing policies that are more aggressive than ours. We expect competition to increase as retailers and direct marketers who have not traditionally sold computers and related products enter the industry.

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 cannot provide assurance that we can continue to compete effectively against our current or future competitors. If we encounter new competition or fail to compete effectively against our competitors, our business may be harmed.

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 escalate if economic conditions deteriorate. 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 generally result in 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.

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 advertising allowances, and in exchange, we feature their products in our catalogs and other marketing vehicles. These vendor allowances, to the extent that they represent specific reimbursements of incremental and identifiable costs, are offset against SG&A expenses. Advertising allowances that cannot be associated with a specific program funded by an individual vendor or that exceed the fair value of advertising expense associated with that program are classified as offsets to cost of sales or inventory. In the past, we have experienced a decrease in the level of vendor consideration available to us from certain manufacturers. The level of such consideration we receive from some manufacturers may decline in the future. Such a decline could decrease our gross profit and have a material adverse effect on our earnings and cash flows.

The failure to comply with our public sector contracts could result in, among other things, fines or liabilities.

Revenues from the public sector segment are derived from sales to federal, state, and local government departments and agencies, as well as to educational institutions, through various contracts and open market sales. Government contracting is a highly regulated area. Noncompliance with government procurement regulations or contract provisions could result in civil, criminal, and administrative liability, including substantial monetary fines or damages, termination of government contracts, and suspension, debarment, or ineligibility from doing business with the government. Our current arrangements with these government agencies allow them to cancel orders with little or no notice and do not require them to purchase products from us in the future. The effect of any of these possible actions by any government department or agency could adversely affect our financial position, results of operations, and cash flows.

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

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, our primary computer and telecommunications hardware is located in a single facility in New Hampshire, and a substantial interruption in our management information systems or in our telephone communication systems, including those resulting from extreme weather and natural disasters, as well as power loss, telecommunications failure, or similar events, would substantially hinder our ability to process customer orders and thus could have a material adverse effect on our business.

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

We acquire products for resale both directly from manufacturers and increasingly indirectly through distributors and other sources. The five vendors supplying the greatest amount of goods to us constituted 65%, 69%, and 68% of our total product purchases in the years ended December 31, 2011, 2010, and 2009, respectively. Among these five vendors, purchases from Ingram represented 25%, 25%, and 23% of our total product purchases in 2011, 2010, and 2009, respectively. Purchases from Synnex Corporation represented 14%, 12%, and 11% of our total product purchases in 2011, 2010, and 2009, respectively. Purchases from Tech Data Corporation represented 12%, 14%, and 15% of our total product purchases in 2011, 2010, and 2009, respectively. Purchases from HP represented 10%, 9%, and 10% of our total product purchases in 2011, 2010, and 2009, respectively. No other vendor supplied more than 10% of our total product purchases in the years ended December 31, 2011, 2010, or 2009. If we were unable to acquire products from Ingram, Synnex, 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.

Products manufactured by HP represented 28% of our net sales in both years ended December 31, 2011 and 2010, and 26% for the year ended December 31, 2009. We believe that in the event we experience either a short-term or permanent disruption of supply of HP products, such disruption would likely have a material adverse effect on our results of operations and cash flows.

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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, 2011 was \$130.9 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 increasing 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 purchases or similar opportunities, or if significant availability constraints reoccur.

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, placing larger than typical inventory stocking orders of selected products and increasing our participation in first-to-market purchase opportunities. We may also, from time to time, make large inventory purchases of certain end-of-life products, 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. Manufacturers have limited return rights and have taken steps to reduce their inventory exposure by supporting “configure-to-order” programs authorizing distributors and resellers to assemble computer hardware under the manufacturers’ brands. These actions reduce the costs to manufacturers and shift the burden of inventory risk to resellers like us, which could negatively impact our business.

We are dependent on key personnel.

Our future performance will depend to a significant extent upon the efforts and abilities of our senior executives and other key management personnel. 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 representatives 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.

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, HP, and Lenovo, 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

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

Many of our customers elect to have their purchases shipped by an interstate common carrier, such as UPS or FedEx Corporation. 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.

Natural disasters, terrorism, and other circumstances could materially adversely affect our business.

Natural disasters, terrorism, and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a negative effect on the Company, its suppliers, logistics providers, manufacturing vendors, and customers. Our business operations are subject to interruption by natural disasters, fire, power shortages, nuclear power plant accidents, terrorist attacks, and other hostile acts, and other events beyond our control. Such events could decrease demand for our products, make it difficult or impossible for us to deliver services or products to our customers, or to receive products from our suppliers, and create delays and inefficiencies in our supply chain. In the event of a natural disaster, significant recovery time and substantial expenditures could be required to resume operations and our financial condition, results of operations, and cash flows could be materially adversely affected.

In July of 2011, heavy monsoon rains combined with tropical storms led to severe flooding throughout Thailand, causing widespread damage. Our suppliers obtain materials and components from various sources affected directly or indirectly by the events in Thailand. We continue to work closely with our customers and suppliers to assess production and shipping capabilities and to minimize disruptions. The situation continues to develop and therefore may cause production and supply interruptions. Accordingly, there can be no assurance that we will not be adversely affected by the events in Thailand including, but not limited to, production and supply disruptions, and premium freight charges. Such adverse impacts could have a material impact on our financial condition, results of operations, and cash flows.

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 UPS, and believe that we have negotiated favorable shipping rates with our carriers. 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.

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.

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

We have had an increasing level of sales made via the Internet in part because of the growing use and acceptance of the Internet by end users. Sales of computer products via the Internet represent a significant and

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increasing 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 our development of an increasingly sophisticated 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 our existing Internet infrastructure. Additionally, 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 sophistication, speed, reliability, and cost-effectiveness of the networks operated by third parties, and these networks may not continue to be developed or be available at prices consistent with our required business model. Also, increasing customer sophistication requires that we provide additional website features and functionality in order to be competitive in the marketplace and maintain market share.

We may be liable for misappropriation of our customers' personal information.

We have implemented systems and processes that are designed to prevent unauthorized access to customer information, the processing of fraudulent transactions, and security breaches. However, failure to prevent or mitigate such breaches could have an adverse impact on our business and could subject us to regulatory actions, litigation, harm to our reputation, delays in sales, reduce the efficiency of our operations, and other adverse effects.

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

We collect and remit sales and use taxes in states in which we have either voluntarily registered or have a physical presence. Various states have sought to impose on direct marketers the burden of collecting state sales and use taxes on the sales of products shipped to their residents. Many states have adopted rules that require companies and their affiliates to register in those states as a condition of doing business with those state agencies. Our four operating segments are registered in substantially all states, however, if a state were to determine that our earlier contacts with that state exceeded the constitutionally permitted contacts, the state could assess a tax liability relating to our prior year sales.

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

We mail catalogs and other promotional materials to names in our customer database and to potential customers whose names we obtain from rented or exchanged mailing lists. Public concern regarding the protection of personal information has subjected the rental and use of customer mailing lists and other customer information to increased scrutiny. Legislation enacted limiting or prohibiting the use of rented or exchanged mailing lists could negatively affect our business.

We are controlled by two principal stockholders.

Patricia Gallup and David Hall, our two principal stockholders, beneficially own or control, in the aggregate, approximately 64% of the outstanding shares of our common stock as of December 31, 2011. 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 our Company. Such control may result in decisions that are not in the best interest of our public stockholders. In

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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 1B. Unresolved Staff Comments

None.

Item 2. Properties

In November 1997, we entered into a fifteen-year lease for our corporate headquarters and telemarketing center located at 730 Milford Road, Merrimack, New Hampshire 03054-4631, with an affiliated entity, G&H Post, which is related to us 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, as amended, requires us to pay our proportionate share of real estate taxes and common area maintenance charges as either additional rent or directly to third-parties 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.

In August 2008, we entered into a lease agreement with G&H Post, which is related to us through common ownership, for an office facility adjacent to our corporate headquarters. The lease has a term of ten years and provides us with an option to renew the lease for two additional two-year terms, at the then comparable market rate. The lease requires us to pay our proportionate share of real estate taxes and common area maintenance charges as either additional rent or directly to third-parties and also to pay insurance premiums for the leased property. The lease has been recorded as an operating 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 2012 and the first quarter of 2013, and contain provisions to renew for additional terms. We also operate sales and support offices in Keene and Portsmouth, New Hampshire; Marlborough, Massachusetts; Rockville, Maryland; Dakota Dunes, South Dakota; Boca Raton, Florida; and Itasca, Illinois, and lease facilities at these locations. Leasehold improvements associated with these properties are amortized over the terms of the leases or their useful lives, whichever is shorter. We believe that existing or otherwise available distribution facilities in Wilmington, Ohio will be sufficient to support our anticipated needs through the next twelve months and beyond.

Item 3. Legal Proceedings

We are subject to audits by states on sales and income taxes, unclaimed property, employment matters, and other assessments. A comprehensive multi-state unclaimed property audit continues to be in progress, and total accruals for unclaimed property aggregated \$1.6 million at December 31, 2011. While management believes that known and estimated unclaimed property liabilities have been adequately provided for, it is too early to determine the ultimate outcome of such audits, as no formal assessments have yet been received. Additional liabilities for this or any other audit could be asserted, and such outcome could have a material negative impact on our consolidated financial statements.

We are subject to various legal proceedings and claims, including patent infringement 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 consolidated financial statements.

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Executive Officers of PC Connection

Our executive officers and their ages as of February 28, 2012 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Patricia Gallup	57	Chairman and Chief Administrative Officer
Timothy McGrath	53	President and Chief Executive Officer
Jack Ferguson	73	Executive Vice President, Treasurer and Chief Financial Officer
John Polizzi	65	Senior Vice President and Chief Information Officer

Patricia Gallup is a co-founder of PC Connection and has served as Chief Administrative Officer since August 2011. Ms. Gallup served as Chief Executive Officer from September 2002 to August 2011, and as Chairman of the Board since September 2002. Ms. Gallup also served as President from March 2003 to May 2010. Ms. Gallup has served as a member of our executive management team since its inception in 1982.

Timothy McGrath has served as Chief Executive Officer since August 2011, and as President since May 2010. Mr. McGrath served as Chief Operating Officer from May 2010 to August 2011. Mr. McGrath also served as Executive Vice President, PC Connection Enterprises from May 2007 to May 2010, as Senior Vice President, PC Connection Enterprises from December 2006 to May 2007, and as President of PC Connection Sales Corporation, our largest sales subsidiary, from August 2005 to December 2006.

Jack Ferguson has served as Executive Vice President since May 2007, as Chief Financial Officer since December 2005, and as Treasurer since November 1997. Mr. Ferguson served as Senior Vice President from April 2006 to May 2007 and as Vice President from December 2005 to April 2006. Mr. Ferguson served as Interim Chief Financial Officer from October 2004 to December 2005 and as Director of Finance from December 1992 to November 1997. In January 2012, Mr. Ferguson informed the Board of Directors of his intention to retire, and his successor has been named.

John Polizzi has served as Senior Vice President and Chief Information Officer since February 2010. Prior to joining our company, Mr. Polizzi served from October 2005 to January 2010 as Senior Vice President and Chief Information Officer at BJ's Wholesale Club, Inc., a warehouse club retailer. Mr. Polizzi served from 2003 to October 2005 as Senior Vice President and Global Chief Information Officer at Blockbuster Inc., an electronic media provider, and from 2001 to 2003, he served at Blockbuster as their SVP, North America CIO.

Item 4. Mine Safety Disclosures

Not applicable.

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

Our common stock commenced trading on March 3, 1998, on the Nasdaq Global Select Market under the symbol "PCCC." As of February 15, 2012, there were 26,441,284 shares of our common stock outstanding, held by 97 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 Global Select Market.

<u>2011</u>	<u>High</u>	<u>Low</u>
Quarter Ended:		
December 31	\$11.67	\$7.31
September 30	9.08	6.73
June 30	9.71	7.64
March 31	9.91	7.85
<u>2010</u>	<u>High</u>	<u>Low</u>
Quarter Ended:		
December 31	\$ 9.88	\$6.65
September 30	7.68	5.75
June 30	7.95	5.90
March 31	7.46	5.86

In the fourth quarter of 2011, our bank amended, at our request, our line of credit to increase the aggregate dollar limit to \$25.0 million to repurchase shares and pay cash dividends without bank approval. On December 7, 2011, we paid a special, one-time cash dividend of \$0.40 per share to shareholders of record at the close of business on November 25, 2011. The total amount of the special dividend payment was \$10.6 million.

In February 2012, we renewed our bank line of credit for a five-year period, and the bank agreed under this new facility to remove prior restrictions pertaining to future stock repurchases and cash dividends. We have, however, no current plans to pay additional cash dividends on our common stock in the foreseeable future. A declaration of any future cash dividends will depend upon our financial position, strategic plans, and general business conditions.

Share Repurchase Authorization

On March 28, 2001, our Board of Directors authorized the spending of up to \$15.0 million to repurchase our common stock. Share purchases will be made in the open market from time to time depending on market conditions.

In 2011, we repurchased an aggregate of 460,488 shares for \$3.8 million. As of December 31, 2011, we had repurchased an aggregate of 1,520,150 shares for \$10.8 million. The maximum approximate dollar value of shares that may yet be purchased under the program is \$4.2 million. We have issued nonvested shares from treasury stock and have reflected upon their vesting the net remaining balance of treasury stock on the consolidated balance sheet. In addition, we withheld 26,296 shares, having an aggregate fair value of \$0.2 million, upon the vesting of stock awards to satisfy related employee tax obligations during the year ended December 31, 2011. Such transactions were recognized as a repurchase of common stock and returned to treasury but do not apply against authorized repurchase limits under our Board of Directors' authorization.

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The following table provides information about our purchases during the quarter ended December 31, 2011, of equity securities that we registered pursuant to Section 12 of the Exchange Act:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽¹⁾
10/01/11 – 10/31/11	—	—	—	\$ 4,232,468
11/01/11 – 11/30/11	—	—	—	\$ 4,232,468
12/01/11 – 12/31/11	—	—	—	\$ 4,232,468
Total	—	—	—	\$ 4,232,468

- (1) On March 28, 2001, our Board of Directors announced approval of a share repurchase program of our common stock having an aggregate value of up to \$15.0 million. Share purchases are made in open market from time to time depending on market conditions. This repurchase program does not have a fixed expiration date.

Item 6. Selected Financial Data

The following selected financial and operating data should be read in conjunction with our 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,				
	2011	2010	2009	2008	2007
	(dollars in thousands, except per share and selected operating data)				
Consolidated Statement of Operations Data:					
Net sales	\$2,103,295 ⁽¹⁾	\$1,974,198	\$1,569,656	\$1,753,680	\$1,785,379
Cost of sales	<u>1,838,411</u>	<u>1,744,298</u>	<u>1,384,860</u>	<u>1,538,836</u>	<u>1,566,409</u>
Gross profit	264,884	229,900	184,796	214,844	218,970
Selling, general and administrative expenses	217,273	191,233	172,654	186,728	181,640
Goodwill impairment	—	—	—	8,807	—
Special charges ⁽²⁾	—	—	12,826	1,431	541
Income (loss) from operations	47,611	38,667	(684)	17,878	36,789
Interest expense	(369)	(490)	(517)	(681)	(932)
Other, net	189	213	524	811	764
Income (loss) before taxes	47,431	38,390	(677)	18,008	36,621
Income tax provision	<u>(18,644)</u>	<u>(15,429)</u>	<u>(545)</u>	<u>(7,642)</u>	<u>(13,626)</u>
Net income (loss)	<u>\$ 28,787</u>	<u>\$ 22,961</u>	<u>\$ (1,222)</u>	<u>\$ 10,366</u>	<u>\$ 22,995</u>
Basic earnings (loss) per share	<u>\$ 1.08</u>	<u>\$ 0.85</u>	<u>\$ (0.05)</u>	<u>\$ 0.39</u>	<u>\$ 0.86</u>
Diluted earnings (loss) per share	<u>\$ 1.07</u>	<u>\$ 0.85</u>	<u>\$ (0.05)</u>	<u>\$ 0.39</u>	<u>\$ 0.85</u>
Selected Operating Data:					
Orders entered ⁽³⁾	1,363,000	1,358,000	1,347,800	1,444,000	1,480,000
Average order size ⁽³⁾	\$ 1,861	\$ 1,752	\$ 1,442	\$ 1,401	\$ 1,408

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	December 31,				
	2011	2010	2009	2008	2007
(dollars in thousands)					
Consolidated Balance Sheet Data:					
Working capital	\$ 207,312	\$ 205,073	\$ 183,670	\$ 174,207	\$ 156,532
Total assets	468,019	420,941	401,095	378,167	380,879
Short-term debt:					
Borrowings under line of credit	5,267	—	—	—	—
Current maturities of capital lease obligation to affiliate	971	870	780	699	527
Long-term debt:					
Capital lease obligation to affiliate, less current maturities	989	1,960	2,830	3,610	4,309
Total stockholders' equity	273,529	257,639	235,266	235,324	224,310

- (1) Includes \$28,644 of net sales earned from ValCom, which was acquired in March 2011.
- (2) Special charges in 2009 consisted of a non-cash asset write-off of \$11,609 and \$1,217 of workforce reduction and other management restructuring charges. We recognized the asset write-off after we ceased further development of an internally developed Customer Relationship Management ("CRM") software module. Our 2008 and 2007 special charges consisted of \$1,431 and \$541, respectively, related to management restructuring costs, classified as workforce reductions and other.
- (3) Does not reflect cancellations or returns.

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

Our management’s discussion and analysis of our financial condition and results of operations include the identification of certain trends and other statements that may predict or anticipate future business or financial results that are subject to important factors that could cause our actual results to differ materially from those indicated. See “Item 1A. Risk Factors.”

OVERVIEW

We are a leading direct marketer of a wide range of information technology, or IT, solutions. We help companies design, enable, manage, and service their IT environments. We provide IT products, 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 an extensive range of services involving design, configuration, and implementation of IT solutions. These services are performed by our personnel and by third-party providers. We operate through four sales segments, which serve primarily: (a) small- to medium-sized businesses, or SMBs, through our PC Connection Sales subsidiary, (b) large enterprise customers, in Large Account, through our MoreDirect and ValCom Technology (“ValCom”) subsidiaries, (c) federal, state, and local government and educational institutions, in Public Sector, through our GovConnection subsidiary, and (d) consumers and small office/home office (“Consumer/SOHO”) customers through our PC Connection Express division.

We generate sales primarily through outbound telemarketing and field sales contacts by account managers focused on the business, education, and government markets, our websites, and inbound calls from customers responding to our catalogs and other advertising media. We seek to recruit, retain, and increase the productivity of our sales personnel through training, mentoring, financial incentives based on performance, and updating and streamlining our information systems to make our operations more efficient.

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

Market conditions and technology advances significantly affect the demand for our products and services. Virtual delivery of software products and advanced Internet technology providing customers enhanced functionality have substantially increased customer expectations, requiring us to invest more heavily in our own IT development to meet these new demands. This investment includes significant planned expenditures to update our websites. As buying trends change and electronic commerce continues to grow, customers have become more sophisticated due to the amount and quality of information available and the increased number of readily

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available choices. Customers are also better able to make price comparisons through the Internet, thereby necessitating more aggressive pricing strategies to remain competitive. While it is not possible for us to estimate with any degree of accuracy the level of sales we may have lost or may lose in the future as a result of such increased buyer sophistication, our consolidated Internet sales increased in 2011 to 35% of total sales from 30% in each of 2010 and 2009 and represent a significant portion of our business.

The primary challenges we continue to face in effectively managing our business are (1) increasing our revenues while at the same time maintaining or improving our gross margin in all four segments, (2) recruiting, retaining, and improving the productivity of our sales personnel, and (3) effectively controlling our SG&A expenses while making major investments in our IT systems and solution selling personnel.

To support future growth, we are expanding our IT solution business, which requires the addition of highly-skilled service engineers. We are still in the early stages of this multi-year initiative, and, although we expect to realize the ultimate benefit of higher-margin service revenues, we believe that our SG&A expenses will increase significantly as we add service engineers. If our service revenues do not grow enough to offset the cost of these headcount additions, our operating results may decline.

To operate more efficiently, we have undertaken a comprehensive review and assessment of our entire business software needs. That review and assessment includes the review of commercially available software that meets, or can be configured to meet, those needs better than our existing software. As of December 31, 2011, we have capitalized \$8.3 million of software and integration costs for the initial phase of this software project. While we have not yet finalized our decisions regarding to what extent additional software will be acquired and implemented beyond the MDM software we have acquired to date, we expect to increase our capital investments in our IT infrastructure in the next three years, which will also likely increase SG&A expenses.

ACQUISITION

On March 17, 2011, we acquired ValCom, a provider of IT infrastructure and onsite managed services to medium-to-large corporations. ValCom had approximately 200 employees as of the acquisition date and is headquartered in the greater Chicago area. For the year ended December 31, 2010, its revenues and operating income were \$39.6 million and \$3.0 million, respectively. We have included the operating results for ValCom in our Large Account segment from the acquisition date of March 17, 2011. Since the date of acquisition, ValCom's external sales of \$28.6 million and income from operations were immaterial to our consolidated results. Please see Notes 2, 3, and 4 of the Notes to the Consolidated Financial Statements in this report for further discussion of this acquisition.

RESULTS OF OPERATIONS

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

	Years Ended December 31,		
	2011	2010	2009
Net sales (in millions)	<u>\$2,103.3</u>	<u>\$1,974.2</u>	<u>\$1,569.7</u>
Net sales	100.0%	100.0%	100.0%
Gross profit	12.6	11.6	11.8
Selling, general and administrative expenses	10.3	9.7	11.0
Special charges	—	—	0.8
Income (loss) from operations	2.3	2.0	—

Net sales increased in 2011 by \$129.1 million, or 6.5%, compared to 2010, as sales for SMB, Large Account, and Public Sector segments increased and offset a decline in Consumer/SOHO sales. Gross margin

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(gross profit expressed as a percentage of net sales) increased in all four operating segments primarily as a result of our focus on margin improvement. SG&A expenses as a percentage of net sales in 2011 increased due to investments in solution sales support and the acquisition of ValCom in the first quarter of 2011. Operating income in 2011 increased by \$8.9 million year over year due to the increase in net sales and gross margin.

Sales Distribution

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

<u>Business Segment</u>	Years Ended December 31,		
	2011	2010	2009
SMB	41%	42%	42%
Large Account	34	31	27
Public Sector	22	23	25
Consumer/SOHO	3	4	6
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>
<u>Product Mix</u>			
Notebook	18%	17%	15%
Desktop/Server	16	16	13
Software	15	14	14
Net/Com Product	10	10	11
Video, Imaging and Sound	10	12	14
Printer and Printer Supplies	7	8	8
Storage Device	7	7	8
Memory and System Enhancements	4	4	4
Accessory/Other	13	12	13
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Gross Profit Margins

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

<u>Segment</u>	Years Ended December 31,		
	2011	2010	2009
SMB	14.9%	13.9%	14.0%
Large Account	10.9	10.3	10.3
Public Sector	11.2	10.0	10.0
Consumer/SOHO	10.1	7.7	10.1
Total	12.6%	11.6%	11.8%

On a consolidated basis, gross margin in 2011 increased year over year due to improved invoice selling margins (74 basis points) and increased vendor consideration (19 basis points). Invoice selling margins increased due to our focus on margin improvement and higher-margin solution services and products.

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Cost of sales includes the invoice cost of the product, direct employee and third party cost of services, direct costs of packaging, inbound and outbound freight, and provisions for inventory obsolescence, adjusted for discounts, rebates, and other vendor allowances. Direct operating expenses relating to our purchasing function and receiving, inspection, internal transfer, warehousing, packing and shipping, and other expenses of our distribution center are included in our SG&A expenses. Accordingly, our gross margin may not be comparable to those of other entities who include all of the costs related to their distribution network in cost of goods sold. Such distribution costs included in our SG&A expenses, as a percentage of net sales for the periods reported, are as follows:

Years Ended December 31,		
2011	2010	2009
0.64%	0.62%	0.75%

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,		
	2011	2010	2009
Personnel costs	\$153.3	\$132.8	\$115.4
Advertising	20.9	17.9	17.1
Facilities operations	10.1	8.7	8.9
Credit card fees	6.6	7.0	6.8
Depreciation and amortization	6.0	5.4	6.8
Professional fees	7.4	8.4	7.6
Bad debts	2.2	2.1	1.9
Other—net	10.8	8.9	8.2
Total	<u>\$217.3</u>	<u>\$191.2</u>	<u>\$172.7</u>
Percentage of net sales	<u>10.3%</u>	<u>9.7%</u>	<u>11.0%</u>

Personnel costs increased in 2011 compared to 2010 due to increased variable compensation associated with higher gross profits and the acquisition of ValCom in the first quarter of 2011. We also continued to invest in 2011 in key areas to augment our sales support and technical solution services areas, which contributed to the year-over-year increase in personnel costs. In addition, we increased advertising expenditures in 2011 compared to 2010.

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YEAR-OVER-YEAR COMPARISONS

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net sales increased by 6.5% to \$2,103.3 million in 2011 from \$1,974.2 million in 2010 due to increases in our three primary business segments. Changes in net sales and gross profit by operating segment are shown in the following table (dollars in millions):

	Years Ended December 31,				
	2011		2010		% Change
	Amount	% of Net Sales	Amount	% of Net Sales	
Sales:					
SMB	\$ 865.3	41.2%	\$ 833.4	42.2%	3.8%
Large Account	711.2	33.8	603.2	30.6	17.9
Public Sector	469.7	22.3	462.9	23.4	1.5
Consumer/SOHO	57.1	2.7	74.7	3.8	(23.6)
Total	<u>\$2,103.3</u>	<u>100.0%</u>	<u>\$1,974.2</u>	<u>100.0%</u>	6.5%
Gross Profit:					
SMB	\$ 129.2	14.9%	\$ 115.8	13.9%	11.6%
Large Account	77.5	10.9	62.0	10.3	25.0
Public Sector	52.5	11.1	46.4	10.0	13.1
Consumer/SOHO	5.7	10.1	5.7	7.7	—
Total	<u>\$ 264.9</u>	<u>12.6%</u>	<u>\$ 229.9</u>	<u>11.6%</u>	15.2%

- Net sales for the SMB segment increased due to the higher IT demand and our investments in solutions selling. Such investments enhanced our ability to sell more sophisticated products in faster growing product categories, such as net/com and software products. In addition, we believe that the continued improvement in corporate profits led to an increase in customer demand for notebooks and desktops, albeit at a lower year-over-year rate compared to 2010. Sales representatives for our SMB segment totaled 372 at December 31, 2011, compared to 369 at December 31, 2010.
- Net sales for the Large Account segment increased due to an increase in customer IT demand associated with improved corporate profits, as well as the inclusion of the post-acquisition sales of ValCom, which totaled \$28.6 million. Excluding ValCom sales, this segment's sales would have increased by 13.2%. The sales growth was also attributed to our investments in solution sales support which drove higher margin enterprise sales. Sales representatives for our Large Account segment totaled 133 at December 31, 2011, compared to 87 at December 31, 2010. The increased headcount is due to investments in sales representatives to support growth in our original Large Account subsidiary, More Direct, as well as the inclusion of 14 ValCom sales representatives in the December 31, 2011 total.
- Net sales for the Public Sector segment increased slightly due to growth in educational sales, offset by decreases in federal government sales which we attribute to budgetary constraints. The growth in education sales was attributed to our investments in solution sales support which drove higher margin enterprise sales. Sales representatives for our Public Sector segment totaled 141 at December 31, 2011, compared to 139 at December 31, 2010.
- Net sales for the Consumer/SOHO segment decreased further in 2011, as profitability and gross margin improvements were this segment's primary focus.

Gross profit for 2011 increased in dollars and as a percentage of net sales, as explained below:

- Gross profit for the SMB segment increased due to increases in both sales and gross margin. Gross margin was higher year over year as an increase in invoice selling margins (54 basis points) offset

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lower vendor consideration (42 basis points). Invoice selling margins increased due to this segment's focus on margin improvement and higher-margin solution services and products.

- Gross profit for the Large Account segment increased due to an increase in net sales and gross margin. Gross margin increased year over year as an increase in invoice selling margins (90 basis points) offset a decrease in vendor consideration (10 basis points). Invoice selling margins increased due to its focus on margin improvement and higher-margin solution services and products, as well as the inclusion of higher-margin services revenue of ValCom.
- Gross profit for the Public Sector segment increased primarily due to an increase in gross margin. Higher invoice selling margins (108 basis points) and increased vendor consideration (23 basis points) offset lower net agency revenues (13 basis points). Invoice selling margins increased due to this segment's focus on margin improvement and higher-margin solution services and products.
- Gross profit for the Consumer/SOHO segment was unchanged as the decrease in net sales was offset by increased gross margin. Higher invoice selling margins (202 basis points) and an increase in vendor consideration (62 basis points) more than offset the higher cost of promotional free-shipping (29 basis points).

Selling, general and administrative expenses in 2011 increased in dollars and as a percentage of net sales compared to the prior year, as described below.

SG&A expenses attributable to our operating segments, including Headquarters/Other group expenses allocated to segments, and remaining unallocated Headquarters/Other group expenses are summarized below (dollars in millions):

	Years Ended December 31,				
	2011		2010		
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>	<u>% Change</u>
SMB	\$ 97.6	11.3%	\$ 88.4	10.6%	10.4%
Large Account	48.9	6.9	35.6	5.9	37.1
Public Sector	47.6	10.1	42.2	9.1	12.7
Consumer/SOHO	10.6	18.5	12.7	17.0	(17.0)
Headquarters/Other, unallocated	12.6		12.3		3.1
Total	<u>\$217.3</u>	10.3%	<u>\$191.2</u>	9.7%	13.6%

- SG&A expenses for the SMB segment increased in dollars and as a percentage of net sales due to investments in solution sales and support personnel and increased marketing expenditures. Incremental variable compensation associated with the \$13.4 million increase in gross profits also contributed to the dollar increase.
- SG&A expenses for the Large Account segment increased in dollars and as a percentage of net sales primarily due to an increase in personnel expense. The personnel expense increase was attributed to incremental variable compensation relating to the improvement in gross profit, investments in sales support areas, and the inclusion of the 2011 operating expenses of ValCom, which we acquired in March 2011. Increased usage of centralized headquarters services also contributed to the year-over-year dollar increase. The increase in expense as a percentage of net sales was due primarily to the higher SG&A expense rate attributable to ValCom and its services business model.
- SG&A expenses for the Public Sector segment increased in dollars and as a percentage of net sales as increases in personnel expense and advertising expenditures offset lower professional fees. Personnel expense increased due to the addition of solution sales support, higher medical insurance costs, and incremental variable compensation associated with the \$6.1 million increase in gross profits.

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- SG&A expenses for the Consumer/SOHO group decreased in dollars but increased as a percentage of net sales due to a planned reduction in internet advertising and catalog circulation compared to the prior year. Lower usage of centralized headquarters services resulting from the sales decrease also contributed to the year-over-year dollar decrease.
- Unallocated SG&A expenses for the Headquarters/Other group increased due to an increase in unallocated personnel and other costs related to senior management oversight, as well as \$0.7 million of ValCom acquisition related costs. The Headquarters/Other group provides services to the four operating segments in areas such as finance, human resources, IT, marketing, and product management. Most of the operating costs associated with such corporate headquarters services are charged to the operating segments based on their estimated usage of the underlying services. The amounts shown above represent the remaining unallocated costs.

Income from operations increased by \$8.9 million to \$47.6 million for the year ended December 31, 2011, compared to \$38.7 million for the year ended December 31, 2010. Income from operations as a percentage of net sales was 2.3% for 2011, compared to 2.0% in 2010. The increase in operating income resulted from an increase in sales and gross margin.

Income taxes. Our effective tax rate was 39.3% for the year ended December 31, 2011, compared to 40.2% for the year ended December 31, 2010. Our tax rate will continue to vary based on variations in state tax levels for certain subsidiaries, valuation reserves, and accounting for uncertain tax positions. However, we do not expect these variations to be significant in 2012.

Net income increased by \$5.8 million to \$28.8 million in 2011, compared to \$23.0 million in 2010, principally due to the increase in operating income.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Net sales increased by 25.8% to \$1,974.2 million in 2010 from \$1,569.7 million in 2009 due to increases in our three primary business segments. Changes in net sales and gross profit by business segment are shown in the following table (dollars in millions):

	Years Ended December 31,				
	2010		2009		% Change
	Amount	% of Net Sales	Amount	% of Net Sales	
Sales:					
SMB	\$ 833.4	42.2%	\$ 657.1	41.8%	26.8%
Large Account	603.2	30.6	427.9	27.3	41.0
Public Sector	462.9	23.4	389.3	24.8	18.9
Consumer/SOHO	74.7	3.8	95.4	6.1	(21.7)
Total	<u>\$1,974.2</u>	<u>100.0%</u>	<u>\$1,569.7</u>	<u>100.0%</u>	25.8%
Gross Profit:					
SMB	\$ 115.8	13.9%	\$ 92.2	14.0%	25.5%
Large Account	62.0	10.3	44.0	10.3	40.8
Public Sector	46.4	10.0	38.9	10.0	19.3
Consumer/SOHO	5.7	7.7	9.7	10.1	(40.6)
Total	<u>\$ 229.9</u>	<u>11.6%</u>	<u>\$ 184.8</u>	<u>11.8%</u>	24.4%

- Net sales for the SMB segment increased due to the increase in IT demand associated with the rebound in corporate customer profits and the fulfillment of delayed IT replacement needs. Our SMB sales

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representatives increased 2010 sales by acquiring a greater share of existing customers' IT purchases, which we attribute to our increased focus on selling IT solutions. Sales representatives for our SMB segment totaled 369 at December 31, 2010, compared to 337 at December 31, 2009.

- Net sales for the Large Account segment increased due to the release of pent-up IT demand and increased investments made by large enterprises. Large enterprises continued in 2010 to upgrade their IT systems to improve workforce productivity. New customer acquisitions also contributed to the year-over-year increase in net sales. Sales representatives for our Large Account segment totaled 87 at December 31, 2010, compared to 92 at December 31, 2009.
- Net sales for the Public Sector segment increased due to the growth in contract sales entered into with both the federal government and higher educational institutions. Federal government sales in 2010 increased by 23%, while sales to state and local government and educational institutions increased by 16%. Sales representatives for our Public Sector segment totaled 139 at December 31, 2010, compared to 140 at December 31, 2009.
- Net sales for the Consumer/SOHO segment decreased as profitability and initiatives designed to increase traffic on its site were this segment's primary focus in 2010, its first full year of operations.

Gross profit for 2010 increased in dollars but decreased as a percentage of net sales, as explained below:

- Gross profit for the SMB segment increased due to higher net sales. Gross margin decreased in 2010 compared to the prior year as increased invoice selling margins and lower inventory costs were more than offset by lower vendor funding as a percentage of net sales.
- Gross profit increased for the Large Account segment due to an increase in net sales. Gross margin was largely unchanged as an increase in high-margin agency revenues was offset by a decrease in invoice selling margins.
- Gross profit for the Public Sector segment increased due to an increase in net sales. However, gross margin was unchanged as an increase in vendor consideration as a percentage of net sales was offset by lower invoice selling margins.
- Gross profit and gross margin for the Consumer/SOHO segment both decreased in 2010. Gross margin decreased due to increased promotional pricing initiatives, free customer shipping, and other marketing programs designed to attract customers to this segment's new website.

Selling, general and administrative expenses increased in dollars but decreased as a percentage of net sales. The decrease in expense as a percentage of net sales resulted from improved expense management and the leverage gained with our year-over-year increase in sales.

SG&A expenses attributable to our operating segments, including Headquarters/Other group expenses allocated to segments, and remaining unallocated Headquarters/Other group expenses are summarized below (dollars in millions):

	Years Ended December 31,				
	2010		2009		% Change
	Amount	% of Net Sales	Amount	% of Net Sales	
SMB	\$ 88.4	10.6%	\$ 78.9	12.0%	12.0%
Large Account	35.6	5.9	28.5	6.7	25.4
Public Sector	42.2	9.1	38.2	9.8	10.5
Consumer/SOHO	12.7	17.0	15.1	15.8	(15.8)
Headquarters/Other, unallocated	12.3		12.0		2.2
Total	<u>\$191.2</u>	9.7%	<u>\$172.7</u>	11.0%	10.8%

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- SG&A expenses for the SMB segment increased in dollars but decreased as a percentage of net sales. Personnel expense increased due to incremental variable compensation associated with higher gross profits and the addition of sales representatives in the second half of 2010. Increased usage of centralized headquarters services and higher credit card fees associated with the sales increase also contributed to the dollar increase. SG&A expenses as a percentage of net sales decreased due to the leverage gained by the increase in net sales.
- SG&A expenses for the Large Account segment increased in dollars but decreased as a percentage of net sales. Personnel expense increased due to incremental variable compensation associated with the improvement in gross profits and the addition of sales support personnel. Increased usage of centralized headquarters services also contributed to the dollar increase. SG&A expenses as a percentage of net sales decreased due to the leverage gained by the increase in net sales and cost containment initiatives.
- SG&A expenses for the Public Sector segment increased in dollars but decreased as a percentage of net sales. SG&A expenses increased in dollars due to incremental variable compensation and higher levels of professional fees and usage of centralized headquarters services. SG&A expenses as a percentage of net sales decreased due to the leverage gained by the increase in net sales and cost containment initiatives.
- SG&A expenses for the Consumer/SOHO group decreased in dollars but increased as a percentage of net sales due to a reduction in catalog circulation from the prior year. Lower usage of centralized headquarters services resulting from lower sales also contributed to the dollar decrease.
- Unallocated SG&A expenses for the Headquarters/Other group increased slightly as higher personnel expense was largely offset by increased usage of support services by the operating segments. Personnel expense increased due to incremental variable compensation associated with improved operating results. Most of the operating costs associated with corporate headquarters services are charged to the operating segments based on their estimated usage of the underlying services. The amounts shown above represent the remaining unallocated costs.

Special charges. We did not record any special charges in 2010. Special charges totaled \$12.8 million in 2009 and consisted of a non-cash asset write-off of \$11.6 million and \$1.2 million of workforce reduction and management restructuring charges. The asset write-off represented the capitalized costs of an internally developed Customer Relationship Management, or CRM, module, and as a result, the charge had no impact on our cash flows.

Income from operations increased by \$39.4 million to \$38.7 million for 2010, compared to an operating loss of \$0.7 million for 2009. Income from operations as a percentage of net sales was 2.0% for 2010, compared to a slight loss from operations as a percentage of net sales in 2009. Our operating income in 2010 resulted from an increase in sales, prior year cost reductions, and the absence of special charges compared to the prior year, in which special charges totaled \$12.8 million.

As discussed above, we incurred in 2009 an \$11.6 million charge related to the write-off of an internally developed CRM software module.

Income taxes. Our effective tax rate was 40.2% for the year ended December 31, 2010, compared to the effective tax rate of 80.5% for the year ended December 31, 2009. In 2009, we reported an income tax provision despite a pre-tax loss. Our tax rate in 2009 was affected by unrealized state tax loss benefits, which decrease the benefit rate in loss periods and increase the tax rate in profitable periods.

Net income increased by \$24.2 million to \$23.0 million in 2010, compared to a net loss of \$1.2 million in 2009, principally due to the increase in operating income.

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 working capital for operational needs, capital expenditures for computer equipment and software used in our business, repurchases of common stock for treasury, and as opportunities arise, possible acquisitions of new businesses.

We believe that funds generated from operations, together with available credit under our bank line of credit and inventory trade credit agreements, will be sufficient to finance our working capital, capital expenditure, and other requirements for at least the next twelve calendar months. Aside from our expenditures on the Customer MDM software initiative, we expect our capital needs for 2012 to consist primarily of capital expenditures of \$11.0 to \$14.0 million and payments on capital lease and other contractual obligations of approximately \$3.7 million. In addition, we are currently in the midst of a comprehensive review and assessment of our entire business software needs. That review and assessment includes the review of commercially available software that meets, or can be configured to meet, those needs better than our existing software. While we have not finalized our decisions regarding to what extent new software will be acquired and implemented beyond the Customer MDM software we have acquired to date, the additional capital costs of such a project, if fully implemented, would likely exceed \$20.0 million over the next three years. We have capitalized \$8.3 million of software and integration costs for the Customer MDM software project, the first stage of our overall IT initiative, as of December 31, 2011.

We expect to meet our cash requirements for 2012 through a combination of cash on hand, cash generated from operations, and borrowings on our bank line of credit, as follows:

- *Cash on Hand.* At December 31, 2011, we had \$4.6 million in unrestricted cash.
- *Cash Generated from Operations.* We expect to generate cash flows from operations in excess of operating cash needs by generating earnings and balancing net changes in inventories and receivables with compensating changes in payables to generate a positive cash flow. We generated positive cash flows from operations prior to 2010, and we expect to do so again in 2012 primarily through improved collection of accounts receivables.
- *Credit Facilities.* As of December 31, 2011, we had \$5.3 million in outstanding borrowings against our \$50.0 million bank line of credit, which is available through October 2012. This line of credit can be increased, at our option, to \$80.0 million for approved acquisitions or other uses authorized by the bank. Borrowings are, however, limited by certain minimum collateral and earnings requirements, as described more fully below.

Our ability to continue funding our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. While we do not anticipate needing any additional sources of financing to fund our operations at this time, if demand for IT products declines, our cash flows from operations may be substantially affected. See also related risks listed above under "Item 1A. Risk Factors."

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Summary Sources and Uses of Cash

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

	Years Ended December 31,		
	2011	2010	2009
Net cash (used for) provided by operating activities	\$ (5.3)	\$ (0.8)	\$ 5.7
Net cash used for investing activities	(16.1)	(7.2)	(5.6)
Net cash used for financing activities	(9.4)	(2.9)	(0.8)
Decrease in cash and cash equivalents	<u>\$(30.8)</u>	<u>\$(10.9)</u>	<u>\$ (0.7)</u>

Cash used for operating activities increased by \$4.5 million in 2011 compared to the prior year. Although we generated \$40.9 million of operating cash from net income and non-cash activities in 2011, accounts receivable increased by \$57.2 million. The increase in accounts receivable was due to delays in customer payments and higher level of sales. Days sales outstanding, or DSOs, increased from 44 days at December 31, 2010, to 53 days at December 31, 2011. Our collection efforts are ongoing, and we expect DSOs to improve in 2012 as we return to a more favorable cash conversion cycle. Inventory increased year over year by \$3.1 million in 2011, which we attribute to larger inventory-in-transit at the end of 2011 and increased stocking levels of hard drives, for which product constraints began in the fourth quarter of 2011. Inventory days, which measure the average number of days goods remain in inventory before being sold, increased to 15 days at December 31, 2011, compared to 14 days at the prior year end. We generally attempt to offset such increases by increasing the level of accounts payable; however, accounts payable increased operating cash by only \$14.5 million, not sufficient to offset the increase in accounts receivable and inventory. Cash provided by operating activities decreased by \$6.5 million in 2010 compared to 2009 due to higher levels of accounts receivable and inventory resulting from the significant year-over-year increase in net sales in 2010. Operating cash flow in 2009 resulted primarily from net income before non-cash asset impairment and depreciation, as well as an increase in accounts payable, offset by increases in accounts receivable and inventory.

At December 31, 2011, we had \$130.9 million in outstanding accounts payable. Such accounts are generally paid within 30 days of incurrence, or earlier when favorable cash discounts are offered. This balance will be financed by cash flows from operations or short-term borrowings under the line of credit. This amount includes \$22.8 million payable to two financial institutions under inventory trade credit agreements we use to finance our purchase of certain inventory, secured by the inventory which is financed. 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 increased by \$8.9 million in 2011 over 2010 primarily due to an increase in capital expenditures and the acquisition of ValCom. Cash used to purchase property and equipment less proceeds from the sale of disposed property and equipment amounted to \$10.9 million in 2011, compared to \$6.4 million in the prior year. These expenditures were primarily for computer equipment and capitalized internally-developed software in connection with the IT initiative referred to above. In addition, the acquisition of ValCom represented a net use of cash of \$4.7 million, including the payment of \$1.0 million in contingent consideration upon the achievement of the first of three milestones. We expect to pay approximately \$2.0 million in contingent consideration for the remaining two milestones in 2012.

Cash used for financing activities increased year over year by \$6.5 million in 2011 due primarily to the payment of a special, one-time cash dividend of \$10.6 million. We repurchased 460,488 shares at a total cost of \$3.8 million in 2011 (an average price of \$8.30 per share). In addition, we withheld 26,296 shares, having an aggregate fair value of \$0.2 million, upon the vesting of stock awards to satisfy related employee tax obligations during the year ended December 31, 2011. These repurchases were placed in treasury and are available for future

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equity grants or retirement. The above uses of cash were partially offset by net borrowings of \$5.3 million under our bank line of credit. In 2010, we repurchased 422,973 shares at a total cost of \$2.9 million and withheld 31,809 shares, having an aggregate fair value of \$0.2 million, to satisfy related employee tax obligations. Cash used by financing activities in 2009 related primarily to the purchase of treasury stock and the repayment of capital lease obligations.

Debt Instruments, Contractual Agreements, and Related Covenants

Below is a summary of certain provisions of our credit facilities and other contractual obligations. For more information about the restrictive covenants in our debt instruments and inventory financing agreements, see “Factors Affecting Sources of Liquidity” below. 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 \$50.0 million at the one-month London Interbank Offered Rate, or LIBOR, plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (3.25% at December 31, 2011). In addition, we have the option to increase the facility by an additional \$30.0 million, based on sufficient levels of trade receivables to meet borrowing base requirements, and depending on meeting minimum EBITDA (earnings before interest, taxes, depreciation, amortization, and special charges) and equity requirements, described below under “Factors Affecting Sources of Liquidity.” Substantially all of our assets were collateralized as security for this credit facility, and all of our subsidiaries were guarantors under this line of credit. Borrowings under the credit facility in 2011 were minimal in amount and duration and were utilized to facilitate short term working capital requirements.

We renewed our bank line of credit in February 2012 for a five-year period. The new bank facility contains substantially the same terms and conditions as our prior facility, except that the loan is collateralized only by receivables, and that it no longer contains restrictions on the repurchase of our common stock or the payment of dividends.

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. We had \$5.3 million outstanding under this credit facility as of December 31, 2011. No borrowings were outstanding at December 31, 2010.

Inventory Trade Credit Agreements. We have additional 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 up to 100% financing on the purchase price, up to an aggregate of \$47.0 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. Amounts outstanding under such facilities, equal to \$22.8 million as of December 31, 2011, are recorded in accounts payable, and the inventory financed is classified as inventory on the consolidated balance sheet.

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Contractual Obligations. The following table sets forth information with respect to our long-term obligations payable in cash as of December 31, 2011 (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 obligations ⁽¹⁾	\$2,183	\$ 1,138	\$1,045	\$ —	\$ —
Operating lease obligations ⁽²⁾	5,848	2,122	1,731	1,372	623
Sports marketing commitments	918	396	522	—	—
Total	<u>\$8,949</u>	<u>\$ 3,656</u>	<u>\$3,298</u>	<u>\$1,372</u>	<u>\$ 623</u>

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

(2) Excluding taxes, insurance, and common area maintenance charges.

Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2011, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, \$2.8 million of unrecognized tax benefits, including interest and penalties, have been excluded from the contractual obligations table above. See Note 12 to the Consolidated Financial Statements for a discussion on income taxes.

Capital Leases. We have a fifteen-year lease for our corporate headquarters with an affiliated company related through common ownership. In addition to the rent payable under the facility lease, we are required to pay 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 “Contractual Obligations” above for lease commitments under these leases.

Sports Marketing Commitments. We have entered into multi-year sponsorship agreements with the New England Patriots and the Boston Red Sox that extend to 2013 and 2014, respectively. These agreements, which grant us various marketing rights and seating arrangements, require annual payments aggregating from \$0.1 million to \$0.4 million per year.

Off-Balance Sheet Arrangements. 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, 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, and other distributions, investments, and liens) with which we and all of our subsidiaries must comply. Any failure to comply with these covenants would constitute a default and could prevent us from borrowing additional funds under this line of credit. This 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 trailing four quarters) must not be more than 2.0 to 1.0.

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Our funded debt ratio as of December 31, 2011 did not limit potential borrowings. Decreases in our consolidated EBITDA, however, could limit our potential borrowings under the credit facility.

- Minimum Consolidated Net Worth must be at least \$150.0 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ended March 31, 2007 (loss quarters not counted). Such amount was calculated at December 31, 2011, as \$198.8 million, whereas our actual consolidated stockholders' equity at this date was \$273.5 million. Under our new credit facility, Minimum Consolidated Net Worth must be at least \$250.0 million, plus 50% of consolidated net income for each quarter, beginning with the quarter ending March 31, 2012.

The borrowing base under this facility is set at 80% of qualified commercial receivables, plus 50% of qualified government receivables. As of December 31, 2011, we had \$5.3 million outstanding under this facility.

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.

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

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."

Revenue Recognition

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed or determinable, 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 shipping terms specifically set out in our arrangements with federal agencies and certain commercial customers, delivery is deemed to have occurred at the point in time when the product is received by the customer. We use information regarding shipments at or near the end of the reporting period to estimate the products that have not reached the destination and recognize those revenues in the following period. This process requires us to make estimates of product that is in transit at the reporting date. These estimates are derived from current and historic shipping documentation and the volume of sales. The impact of the deferral of these revenues has not been material in the periods presented.

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 based on significant historical experience and record our sales reserves as a reduction of revenues and either as offsets to accounts receivable or, for customers who have already paid, as credits to accrued expenses. At December 31, 2011, we recorded sales reserves of \$2.4 million and \$0.2 million as components of accounts receivable and accrued expenses, respectively. At December 31, 2010, we recorded sales reserves of \$3.2 million and \$0.4 million as components of accounts receivable and accrued expenses, respectively.

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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 these amounts have been classified as “net sales.” Costs related to such shipping and handling billings are classified as “cost of sales.” Sales are reported net of sales, use, or other transaction taxes that are collected from customers and remitted to taxing authorities.

We use our own engineering personnel in projects involving the design and installation of systems and networks, and we also engage third-party service providers to perform warranty maintenance, implementations, asset disposals, and other services. We evaluate such engagements to determine whether we or the third-party assumes the general risk and reward of ownership in these transactions. For those transactions in which we do not assume the risk and reward but instead act as an agent, we recognize the transaction revenue on a net basis. Under net sales recognition, we recognize the cost of the third-party as a reduction to the selling price, and accordingly, report as revenue only our gross profit earned on the transaction. In those engagements in which we are the principal and primary obligor, we report the sale on a gross basis, and the cost of the service provider is recognized in cost of goods sold.

Similarly, we recognize revenue from agency sales transactions on a net sales basis. In agency sales transactions, we facilitate product sales by equipment and software manufacturers directly to our customers and receive agency, or referral, fees for such transactions. We do not take title to the products or assume any maintenance or return obligations in these transactions; title is passed directly from the supplier to our customer.

Amounts recognized on a net basis included in net sales for such third-party services and agency sales transactions were \$17.5 million, \$14.0 million, and \$12.3 million for the years ended December 31, 2011, 2010, and 2009, respectively.

Although service revenues represent a small percentage of our consolidated revenues, we offer a wide range of services, including design, installation, configuration, and other services performed by our personnel and third-party providers. In certain arrangements, we provide one or more services in addition to the delivery of hardware product or products. Under these multiple-element arrangements, each service performed and product delivered is considered a separate deliverable and accordingly qualifies as a separate unit of accounting. To estimate the selling price of such deliverables, we have available either vendor specific objective evidence or third party evidence of the selling price. Revenue is recognized when the product or service is delivered, consistent with our general revenue recognition policy.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and customers’ current creditworthiness. 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, a change in estimates could give rise to a reduction in the receivable. This could negatively impact our earnings and our cash flows.

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

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current market conditions. If our evaluations are incorrect, we may incur additional charges in the future on our consolidated statements of operations. Our trade receivables are charged off in the period in which they are deemed uncollectible. Recoveries of trade receivables previously charged are recorded when received. Write offs of customer and vendor receivables totaled \$2.3 million and \$2.2 million in the years ended December 31, 2011 and 2010, respectively.

Vendor Allowances

We receive allowances from merchandise vendors for price protections, discounts, product rebates, and other programs. These allowances are treated as a reduction of the vendor's prices and are recorded as adjustments to cost of sales or inventory, as applicable. We also receive vendor co-op advertising funding for our catalogs and other programs. Vendors have the ability to place advertisements in the catalogs or fund other advertising activities for which we receive advertising allowances. These vendor allowances, to the extent that they represent specific reimbursements of the underlying incremental and identifiable costs, are offset against SG&A expense on the consolidated statements of operations. Advertising allowances that cannot be associated with a specific program funded by an individual vendor or that exceed the fair value of advertising expense associated with that program are classified as offsets to cost of sales or inventory. Our vendor partners generally consolidate their funding of advertising and other marketing programs, and as a result, we classify substantially all vendor allowances as a reduction of cost of inventory purchases rather than a reduction of advertising expense.

Inventories

Inventories (all finished goods) consisting of software packages, computer systems, and peripheral equipment are stated at cost (determined under a weighted-average cost method which approximates 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 IT 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, which could negatively impact our earnings. Our obsolescence charges have ranged between \$4.6 million and \$5.1 million per annum. Historically, there have been no unusual charges precipitated by specific technological or forecast issues.

Value of Goodwill and Long-Lived Assets, Including Intangibles

We carry a variety of long-lived assets on our consolidated 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 from such assets may be diminished. We have historically reviewed 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.

We complete our annual impairment test of goodwill and indefinite lived trademarks on the first day of each year. This is a two-step test that requires, under the first step, that we determine the fair value of the reporting unit holding such assets and compare it to the reporting unit's carrying value, including goodwill. We determine the fair value of a reporting unit by preparing a discounted cash flow analysis using forward looking projections of the reporting unit's future operating results, as well as consideration of market valuation approaches.

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Our Large Account segment consists of two reporting units which in aggregate hold \$55.7 million of goodwill and other intangible assets. We concluded that the fair value of each reporting unit was in excess of its respective carrying value, and accordingly we did not identify any impairment in 2011. While we believe that our estimates of fair value are reasonable, different assumptions regarding items such as future cash flows and the volatility inherent in markets which we serve could materially affect our valuations and result in impairment charges against the carrying value of those remaining assets in our Large Account segment. Please see Note 3, “Goodwill and Other Intangible Assets” to the Consolidated Financial Statements included in Item 8 of Part II of this report for a discussion of the significant assumptions used in our discounted cash flow analysis.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2011-04, Fair Value Measurement (Topic 820)—Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements (as defined in Note 4). ASU 2011-04 is effective for us in our first quarter of fiscal 2012 and should be applied prospectively. We do not expect the adoption of ASU 2011-04 to have a material impact on our financial position, results of operations, or cash flows.

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 foreseeable future.

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 LIBOR plus a spread or the prime rate. We believe 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. Our average outstanding borrowing during 2011 was minimal. Accordingly, the change in earnings resulting from a hypothetical 10% increase or decrease in interest rates would not be material.

Item 8. Consolidated Financial Statements and Supplementary Data

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

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

Not applicable.

Item 9A. Controls and Procedures

Management's Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as described above. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors,

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management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal controls over financial reporting as of December 31, 2011. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*.

As discussed in Note 2 to the consolidated financial statements of this Annual Report on Form 10-K, we acquired ValCom Technology on March 17, 2011 in a stock purchase agreement. As a result of the timing of the acquisition and as permitted by the Securities and Exchange Commission, management has excluded internal controls at ValCom Technology from its assessment of the internal control over financial reporting as of December 31, 2011. The financial statements of ValCom Technology constitute 4% of net assets and total assets and 1.4% of net sales, and its operations are immaterial to the consolidated financial statement amounts as of and for the year ended December 31, 2011.

Based on our assessment, management concluded that, as of December 31, 2011, the Company's internal control over financial reporting is effective based on those criteria.

The Company's Independent Registered Public Accounting Firm has issued an audit report on the Company's internal control over financial reporting as of December 31, 2011. This report appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of PC Connection, Inc. and subsidiaries (the “Company”) as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at ValCom Technology, which was acquired on March 17, 2011 and whose financial statements constitute 4% of net assets and total assets and 1.4% of net sales, and whose operations are immaterial to the consolidated financial statement amounts as of and for the year ended December 31, 2011. Accordingly, our audit did not include the internal control over financial reporting at ValCom Technology. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2011 of the Company and our report dated February 28, 2012 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP
Boston, Massachusetts
February 28, 2012

Changes in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the fiscal quarter ended December 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information included under the headings, “Executive Officers of PC Connection” in Item 3 of Part I hereof and “Election of Directors,” “Information Concerning Directors, Nominees, and Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Code of Business Conduct and Ethics Policy,” and “Board Committees – Audit Committee” in our definitive Proxy Statement for our 2012 Annual Meeting of Stockholders to be held on May 23, 2012 (the “Proxy Statement”) is incorporated herein by reference. We anticipate filing the Proxy Statement within 120 days after December 31, 2011. 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 headings “Executive Compensation” and “Director Compensation” in the Proxy Statement is incorporated herein by reference.

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

The information included under the headings “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, and Director Independence

The information included under the headings “Certain Relationships and Related Transactions” and “Director Independence” in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information included under the heading “Principal Accounting Fees and Services” in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(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.

<u>Consolidated Financial Statements</u>	<u>Page References</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statement of Changes in Stockholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

(2) Consolidated Financial Statement Schedule:

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

<u>Schedule</u>	<u>Page Reference</u>
Schedule II—Valuation and Qualifying Accounts	S-1

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) The exhibits listed in the Exhibit Index in Item 15(b) below are filed as part of this Annual Report on Form 10-K.

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(b) Exhibits

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

EXHIBIT INDEX

Exhibits

3.2(5)	Amended and Restated Certificate of Incorporation of Registrant, as amended.
3.4(17)	Amended and Restated 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)*	Form of Registration Rights Agreement among the Registrant, Patricia Gallup, David Hall, and the 1998 PC Connection Voting Trust.
10.2(5)*	1997 Amended and Restated Stock Incentive Plan.
10.3(27)*	2007 Amended and Restated Stock Incentive Plan.
10.4(23)*	Amended and Restated 1997 Employee Stock Purchase Plan.
10.5(15)*	Form of Incentive Stock Option Agreement for 2007 Amended and Restated Stock Incentive Plan.
10.6(15)*	Form of Nonstatutory Stock Option Agreement for 2007 Amended and Restated Stock Incentive Plan.
10.7(28)*	Amended and Restated Form of Restricted Stock Agreement for 2007 Amended and Restated Stock Incentive Plan.
10.8(28)*	Form of Restricted Stock Unit Agreement for 2007 Amended and Restated Stock Incentive Plan.
10.9(30)*	Executive Bonus Plan, as amended.
10.10(1)*	Employment Agreement, dated as of January 1, 1998, between the Registrant and Patricia Gallup.
10.11(19)*	Employment Agreement, dated as of May 12, 2008, between the Registrant and Timothy McGrath.
10.12(19)*	Severance Agreement, dated as of October 9, 2001, between the Registrant and Bradley Mousseau.
10.14(24)*	Employment Agreement, dated February 1, 2010, by and between the Registrant and John A. Polizzi.
10.15(8)	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.
10.16(8)	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.

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Exhibits

- 10.17(8) 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.
- 10.18(8) 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.
- 10.19(12) Second Amendment, dated May 9, 2004, to the Agreement for Inventory Financing between the Registrant and its subsidiaries Merrimack Services Corporation, GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
- 10.20(12) Third Amendment, dated May 27, 2005, to the Agreement for Inventory Financing between the Registrant and its subsidiaries Merrimack Services Corporation, GovConnection, Inc., and MoreDirect, Inc., and IBM Credit LLC.
- 10.21(25) Second Amended and Restated Credit and Security Agreement, dated June 29, 2005, among Citizens Bank of Massachusetts, as lender and as agent, other financial institutions party thereto from time to time, as lenders, PC Connection, Inc., as borrower, GovConnection, Inc., Merrimack Services Corporation, PC Connection Sales Corporation, PC Connection Sales of Massachusetts, Inc., and MoreDirect, Inc., each as guarantors.
- 10.22(16) Third Amendment, dated October 15, 2007, to the Second Amended and Restated Credit and Security Agreement by and among the Registrant and certain subsidiary guarantors, and RBS Citizens, National Association, successor by merger to Citizens Bank of Massachusetts, as lender and agent.
- 10.23 Fourth Amendment, dated August 31, 2011, to the Second Amended and Restated Credit and Security Agreement by and among the Registrant and certain subsidiary guarantors, and RBS Citizens, National Association, successor by merger to Citizens Bank of Massachusetts, as lender and agent.
- 10.24 Fifth Amendment, dated October 31, 2011, to the Second Amended and Restated Credit and Security Agreement by and among the Registrant and certain subsidiary guarantors, and RBS Citizens, National Association, successor by merger to Citizens Bank of Massachusetts, as lender and agent.
- 10.25 Third Amended and Restated Credit and Security Agreement, dated February 24, 2012, among Citizens Bank of Massachusetts, as lender and as agent, other financial institutions party thereto from time to time, as lenders, PC Connection, Inc., as borrower, GovConnection, Inc., PC Connection Sales Corporation, MoreDirect, Inc., and Professional Computer Center, Inc., each as guarantors.
- 10.26(11) Bill of Sale, dated October 21, 2005, between PC Connection, Inc. and IBM Credit, LLC.
- 10.27(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.
- 10.28(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.
- 10.29(22) Amendment No. 2 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.
- 10.30(20) Lease between the Merrimack Services Corporation and G&H Post LLC, dated August 11, 2008, for property located at Merrimack, New Hampshire.

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Exhibits

- 10.31(1) Lease between the Registrant and Miller-Valentine Partners, dated September 27, 1990, as amended, for property located at Old State Route 73, Wilmington, Ohio.
- 10.32(4) Third Amendment, dated June 26, 2000, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at 2840 Old State Route 73, Wilmington, Ohio.
- 10.33(7) Fourth Amendment, dated July 31, 2002, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at Old State Route 73, Wilmington, Ohio.
- 10.34(10) Fifth Amendment, dated February 28, 2005, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at 2780-2880 Old State Route 73, Wilmington, Ohio.
- 10.35(13) Sixth Amendment, dated October 26, 2006, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at Old State Route 73, Wilmington, Ohio.
- 10.36(22) Seventh Amendment, dated January 28, 2009, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at Old State Route 73, Wilmington, Ohio.
- 10.37(26) Eighth Amendment, dated October 13, 2009, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at Old State Route 73, Wilmington, Ohio.
- 10.38(26) Ninth Amendment, dated February 5, 2010, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at Old State Route 73, Wilmington, Ohio.
- 10.39(29) Tenth Amendment, dated September 29, 2010, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated September 27, 1990, for property located at Old State Route 73, Wilmington, Ohio.
- 10.40(3) Assignment of Lease Agreements, dated December 13, 1999, between Micro Warehouse, Inc. (assignor) and the Registrant (assignee), for property located at Old State Route 73, Wilmington, Ohio.
- 10.41(6) First Amendment, dated June 19, 2001, to the Assignment of Lease Agreements, dated as of December 13, 1999, between Micro Warehouse Inc. (assignor) and Merrimack Services Corporation for property located at Old State Route 73, Wilmington, Ohio.
- 10.42(8) Second Amendment, dated April 24, 2003, to the Lease Agreement between Merrimack Services and EWE Warehouse Investments V, LTD., dated December 13, 1999, for property located at Old State Route 73, Wilmington, Ohio.
- 10.43(12) Third Amendment, dated November 11, 2005, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated December 13, 1999, for property located at Old State Route 73, Wilmington, Ohio.
- 10.44(26) Fourth Amendment, dated October 13, 2009, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated December 13, 1999, for property located at Old State Route 73, Wilmington, Ohio.
- 10.45(26) Fifth Amendment, dated February 5, 2010, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated December 13, 1999, for property located at Old State Route 73, Wilmington, Ohio.

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Exhibits

10.46(29)	Sixth Amendment, dated May 20, 2010, to the Lease Agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD., dated December 13, 1999, for property located at Old State Route 73, Wilmington, Ohio.
10.47(31)	Seventh Amendment, dated July 22, 2011, to the Lease agreement between Merrimack Services Corporation and EWE Warehouse Investments V, LTD, dated December 13, 1999, for property located at Old State Road 73, Wilmington, OH.
10.48(4)	Lease between ComTeq Federal, Inc. and Rockville Office/Industrial Associates dated December 14, 1993, for property located at 7503 Standish Place, Rockville, Maryland.
10.49(4)	First Amendment, dated November 1, 1996, to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates, dated December 14, 1993, for property located in Rockville, Maryland.
10.50(4)	Second Amendment, dated March 31, 1998, to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates, dated December 14, 1993, for property located in Rockville, Maryland.
10.51(4)	Third Amendment, dated August 31, 2000, to the Lease Agreement between ComTeq Federal, Inc. and Rockville Office/Industrial Associates, dated December 14, 1993, property located in Rockville, Maryland.
10.52(7)	Fourth Amendment, dated November 20, 2002, to the Lease Agreement between GovConnection, Inc. (formerly known as ComTeq Federal, Inc.) and Metro Park I, LLC (formerly known as Rockville Office/Industrial Associates), dated December 14, 1993, for property located in Rockville, Maryland.
10.53(12)	Fifth Amendment, dated December 12, 2005, to the Lease Agreement between GovConnection, Inc. and Metro Park I, LLC, dated December 14, 1993, for property located in Rockville, Maryland.
10.54(21)	Sixth Amendment, dated September 18, 2008, to the Lease Agreement between GovConnection, Inc. and Metro Park I, LLC, dated December 14, 1993, for property located in Rockville, Maryland.
10.55(9)	Fifth Amendment, dated September 24, 2004, to the Lease Agreement between Merrimack Services Corporation and Bronx II, LLC, dated October 27, 1988, as amended for property located in Marlborough, MA.
10.56(19)	Sixth Amendment, dated February 29, 2008, to the Lease Agreement between Merrimack Services Corporation and RFP Lincoln 293, LLC, assignee of the leasehold interest of Bronx II, LLC, dated October 27, 1988, as amended for property located in Marlborough, MA.
10.57(10)	Lease between MoreDirect, Inc. and Boca Technology Center, LLC, dated February 14, 2005, for property located in Boca Raton, Florida.
10.58(15)	Release and Settlement Agreement, dated December 1, 2006, by and between the United States of America and GovConnection, Inc.
10.59*	Summary of Compensation for Executive Officers.
10.60*	Summary of Compensation for Non-Employee Directors.
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.

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Exhibits

- | | |
|-----------|---|
| 31.2 | Certification of the Company's Executive Vice President, Treasurer, 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 Executive Vice President, Treasurer, 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. |
| 101.INS** | XBRL Instance Document. |
| 101.SCH** | XBRL Taxonomy Extension Schema Document. |
| 101.CAL** | XBRL Taxonomy Calculation Linkbase Document. |
| 101.LAB** | XBRL Taxonomy Label Linkbase Document. |
| 101.PRE** | XBRL Taxonomy Presentation Linkbase Document. |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document. |
- (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 proxy statement pursuant to Section 14(a), File Number 0-23827, filed on April 17, 2001.
 - (6) 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.
 - (7) 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.
 - (8) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2004.
 - (9) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, File Number 0-23827, filed November 15, 2004.
 - (10) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 31, 2006.
 - (11) Incorporated by reference from exhibits filed with the Company's current report on Form 8-K, filed on October 27, 2005.
 - (12) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 30, 2006.
 - (13) Incorporated by reference from exhibits filed with the Company's current report on Form 8-K, filed on October 31, 2006.
 - (14) Incorporated by reference from exhibits filed with the Company's current report on Form 8-K, filed on December 7, 2006.
 - (15) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on August 10, 2007.
 - (16) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on November 13, 2007.

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- (17) Incorporated by reference from exhibits filed with the Company's current report on Form 8-K, filed on January 9, 2008.
 - (18) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 14, 2008.
 - (19) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on May 12, 2008.
 - (20) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on August 11, 2008.
 - (21) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on November 10, 2008.
 - (22) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 16, 2009.
 - (23) Incorporated by reference from exhibits filed with the Company's proxy statement pursuant to Section 14(a), File Number 0-23827, filed on April 30, 2009.
 - (24) Incorporated by reference from exhibits filed with the Company's current report on Form 8-K, filed on January 29, 2010.
 - (25) Incorporated by reference from exhibits filed with the Company's current report on Form 8-K, filed on February 8, 2010.
 - (26) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 15, 2010.
 - (27) Incorporated by reference from exhibits filed with the Company's proxy statement pursuant to Section 14(a), File Number 0-23827, filed on April 16, 2010.
 - (28) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on November 10, 2010.
 - (29) Incorporated by reference from exhibits filed with the Company's annual report on Form 10-K, File Number 0-23827, filed on March 11, 2011.
 - (30) Incorporated by reference from exhibits filed with the Company's proxy statement pursuant to Section 14(a), File Number 0-23827, filed on April 15, 2011.
 - (31) Incorporated by reference from exhibits filed with the Company's quarterly report on Form 10-Q, filed on August 11, 2011.
- * Management contract or compensatory plan or arrangement.
** Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at December 31, 2011 and December 31, 2010, (ii) Condensed Consolidated Statements of Operations for the years ended December 31, 2011, 2010, (iii) Condensed Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2011, 2010, and 2009, (iv) Condensed Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010, and 2009, and (v) Notes to Unaudited Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

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PC CONNECTION, INC. AND SUBSIDIARIES
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of PC Connection, Inc. and subsidiaries (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in stockholders’ equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, 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, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Boston, Massachusetts
February 28, 2012

PC CONNECTION, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except per share data)

	December 31,	
	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,615	\$ 35,374
Accounts receivable, net	295,188	238,011
Inventories	77,437	74,293
Prepaid expenses and other current assets	4,713	4,210
Deferred income taxes	4,436	3,813
Income taxes receivable	1,927	1,489
Total current assets	<u>388,316</u>	<u>357,190</u>
Property and equipment, net	22,570	13,500
Goodwill	51,276	48,060
Other intangibles, net	5,205	1,786
Other assets	652	405
Total Assets	<u>\$468,019</u>	<u>\$420,941</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of capital lease obligation to affiliate	\$ 971	\$ 870
Borrowings under bank line of credit	5,267	—
Accounts payable	130,900	114,632
Accrued expenses and other liabilities	30,902	23,963
Accrued payroll	12,964	12,652
Total current liabilities	181,004	152,117
Deferred income taxes	9,026	5,822
Other liabilities	3,471	3,403
Capital lease obligation to affiliate, less current maturities	989	1,960
Total Liabilities	<u>194,490</u>	<u>163,302</u>
Commitments and Contingencies (Note 14)		
Stockholders' Equity:		
Preferred Stock, \$.01 par value, 10,000 shares authorized, none issued	—	—
Common Stock, \$.01 par value, 100,000 shares authorized, 27,613 and 27,507 issued, 26,365 and 26,653 outstanding at December 31, 2011 and 2010, respectively	276	275
Additional paid-in capital	99,957	98,871
Retained earnings	182,274	164,075
Treasury stock at cost, 1,248 and 854 shares at December 31, 2011 and 2010, respectively	<u>(8,978)</u>	<u>(5,582)</u>
Total Stockholders' Equity	<u>273,529</u>	<u>257,639</u>
Total Liabilities and Stockholders' Equity	<u>\$468,019</u>	<u>\$420,941</u>

See notes to consolidated financial statements.

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PC CONNECTION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)

	Years Ended December 31,		
	2011	2010	2009
Net sales	\$2,103,295	\$1,974,198	\$1,569,656
Cost of sales	<u>1,838,411</u>	<u>1,744,298</u>	<u>1,384,860</u>
Gross profit	264,884	229,900	184,796
Selling, general and administrative expenses	217,273	191,233	172,654
Special charges	<u>—</u>	<u>—</u>	<u>12,826</u>
Income (loss) from operations	47,611	38,667	(684)
Interest expense	(369)	(490)	(517)
Other, net	<u>189</u>	<u>213</u>	<u>524</u>
Income (loss) before taxes	47,431	38,390	(677)
Income tax provision	<u>(18,644)</u>	<u>(15,429)</u>	<u>(545)</u>
Net income (loss)	<u>\$ 28,787</u>	<u>\$ 22,961</u>	<u>\$ (1,222)</u>
Earnings (loss) per common share:			
Basic	<u>\$ 1.08</u>	<u>\$ 0.85</u>	<u>\$ (0.05)</u>
Diluted	<u>\$ 1.07</u>	<u>\$ 0.85</u>	<u>\$ (0.05)</u>
Shares used in computation of earnings (loss) per common share:			
Basic	<u>26,703</u>	<u>27,007</u>	<u>26,833</u>
Diluted	<u>26,800</u>	<u>27,053</u>	<u>26,833</u>

See notes to consolidated financial statements.

PC CONNECTION, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(amounts in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Shares		Total
	Shares	Amount			Shares	Amount	
Balance—January 1, 2009	<u>27,326</u>	<u>\$ 273</u>	<u>\$ 95,997</u>	<u>\$142,336</u>	<u>(492)</u>	<u>\$(3,282)</u>	<u>\$235,324</u>
Issuance of common stock under Employee Stock Purchase Plan	49	1	274	—	—	—	275
Stock-based compensation expense	—	—	1,420	—	—	—	1,420
Nonvested stock awards	—	—	(372)	—	58	372	—
Repurchase of common stock for treasury	—	—	—	—	(93)	(425)	(425)
Tax shortfall from stock-based compensation	—	—	(106)	—	—	—	(106)
Net loss and comprehensive loss	—	—	—	(1,222)	—	—	(1,222)
Balance—December 31, 2009	<u>27,375</u>	<u>274</u>	<u>97,213</u>	<u>141,114</u>	<u>(527)</u>	<u>\$(3,335)</u>	<u>235,266</u>
Issuance of common stock under stock incentive plans, including income tax deficiencies	90	1	653	—	—	—	654
Issuance of common stock under Employee Stock Purchase Plan	42	—	294	—	—	—	294
Stock-based compensation expense	—	—	1,531	—	—	—	1,531
Nonvested stock awards	—	—	(820)	—	128	820	—
Repurchase of common stock for treasury	—	—	—	—	(455)	(3,067)	(3,067)
Net income and comprehensive income	—	—	—	22,961	—	—	22,961
Balance—December 31, 2010	<u>27,507</u>	<u>275</u>	<u>98,871</u>	<u>164,075</u>	<u>(854)</u>	<u>\$(5,582)</u>	<u>257,639</u>
Issuance of common stock under stock incentive plans	64	1	403	—	—	—	404
Issuance of common stock under Employee Stock Purchase Plan	42	—	380	—	—	—	380
Stock-based compensation expense	—	—	824	—	—	—	824
Nonvested stock awards	—	—	(633)	—	93	633	—
Tax benefit from stock-based compensation	—	—	112	—	—	—	112
Repurchase of common stock for treasury	—	—	—	—	(487)	(4,029)	(4,029)
Dividend payment	—	—	—	(10,588)	—	—	(10,588)
Net income and comprehensive income	—	—	—	28,787	—	—	28,787
Balance—December 31, 2011	<u>27,613</u>	<u>\$ 276</u>	<u>\$ 99,957</u>	<u>\$182,274</u>	<u>(1,248)</u>	<u>\$(8,978)</u>	<u>\$273,529</u>

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2011	2010	2009
Cash Flows from Operating Activities:			
Net income (loss)	\$ 28,787	\$ 22,961	\$ (1,222)
Adjustments to reconcile net income (loss) to net cash (used for) provided by operating activities:			
Depreciation and amortization	5,951	5,430	6,796
Provision for doubtful accounts	2,768	2,372	2,354
Deferred income taxes	2,581	1,546	(1,476)
Stock-based compensation expense	824	1,531	1,420
Income tax benefit (deficiency) from stock-based compensation	112	(16)	(106)
Loss on disposal of fixed assets	16	2	16
Fair value adjustment to contingent consideration	(80)	—	—
Excess tax benefit from exercise of stock options	(15)	—	—
Non-cash portion of special charges	—	—	11,625
Changes in assets and liabilities:			
Accounts receivable	(56,682)	(22,288)	(34,564)
Inventories	(2,850)	(6,902)	(6,578)
Prepaid expenses and other current assets	(673)	(2,014)	1,389
Other non-current assets	(219)	77	(97)
Accounts payable	14,497	(10,329)	23,471
Accrued expenses and other liabilities	(309)	6,768	2,682
Net cash (used for) provided by operating activities	<u>(5,292)</u>	<u>(862)</u>	<u>5,710</u>
Cash Flows from Investing Activities:			
Purchases of property and equipment	(10,855)	(6,387)	(5,569)
Acquisition of ValCom Technology, net of cash acquired	(4,745)	—	—
Purchase of intangible asset	(450)	(800)	—
Proceeds from sale of property and equipment	4	9	2
Net cash used for investing activities	<u>(16,046)</u>	<u>(7,178)</u>	<u>(5,567)</u>
Cash Flows from Financing Activities:			
Proceeds from short-term borrowings	59,373	9,485	22,401
Repayment of short-term borrowings	(54,106)	(9,485)	(22,401)
Dividend payment	(10,588)	—	—
Repayment of capital lease obligation to affiliate	(870)	(780)	(699)
Purchase of treasury shares	(4,029)	(3,067)	(425)
Exercise of stock options	404	670	—
Issuance of stock under Employee Stock Purchase Plan	380	294	275
Excess tax benefit from exercise of stock options	15	—	—
Net cash used for financing activities	<u>(9,421)</u>	<u>(2,883)</u>	<u>(849)</u>
Decrease in cash and cash equivalents	(30,759)	(10,923)	(706)
Cash and cash equivalents, beginning of year	35,374	46,297	47,003
Cash and cash equivalents, end of year	<u>\$ 4,615</u>	<u>\$ 35,374</u>	<u>\$ 46,297</u>
Non-cash Investing and Financing Activities:			
Contingent consideration included in accrued expenses and other liabilities	\$ 1,960	\$ —	\$ —
Issuance of nonvested stock from treasury	633	820	372
Accrued capital expenditures	430	4	163
Supplemental Cash Flow Information:			
Income taxes paid	\$ 16,813	\$ 14,894	\$ 1,551
Interest paid	276	403	456

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

We are a leading direct marketer of a wide range of information technology, or IT, solutions. We help companies design, enable, manage, and service their IT environments. We provide products, 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 an extensive range of design, configuration, and implementation of IT solutions. We have four operating segments, which serve primarily: (a) small- to medium-sized businesses, or SMBs, through our PC Connection Sales subsidiary, (b) large enterprise customers, in Large Account, through our MoreDirect and ValCom Technology, or ValCom, subsidiaries, (c) federal, state, and local government and educational institutions, in Public Sector, through our GovConnection subsidiary, and (d) consumers and small office/home office, or Consumer/SOHO, customers through our PC Connection Express division.

The following is a summary of our significant accounting policies.

Principles of Consolidation

The consolidated financial statements include the accounts of PC Connection, Inc. and its subsidiaries, all of which are wholly-owned. 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 reported amounts and disclosures of assets and liabilities and the reported amounts and disclosures of revenue and expenses during the reported period. By nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from those estimates and assumptions.

Revenue Recognition

Revenue on product sales is recognized at the point in time when persuasive evidence of an arrangement exists, the price is fixed or determinable, 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 shipping terms specifically set out in our arrangements with federal agencies and certain commercial customers, 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 based on significant historical experience and record our sales reserves as a reduction of revenues and either as offsets to accounts receivable or, for customers who have already paid, as credits to accrued expenses. At December 31, 2011, we recorded sales reserves of \$2,432 and \$233 as components of accounts receivable and accrued expenses, respectively. At December 31, 2010, we recorded sales reserves of \$3,244 and \$354 as components of accounts receivable and accrued expenses, respectively.

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 these amounts have been classified as "net sales." Costs related to such shipping and handling billings are classified as "cost of sales." Sales are reported net of sales, use, or other transaction taxes that are collected from customers and remitted to taxing authorities.

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We use our own engineering personnel in projects involving the design and installation of systems and networks, and we also engage third-party service providers to perform warranty maintenance, implementations, asset disposals, and other services. We evaluate such engagements to determine whether we or the third-party assumes the general risk and reward of ownership in these transactions. For those transactions in which we do not assume the risk and reward but instead act as an agent, we recognize the transaction revenue on a net basis. Under net sales recognition, we recognize the cost of the third-party as a reduction to the selling price, and accordingly, report as revenue only our gross profit earned on the transaction. In those engagements in which we are the principal and primary obligor, we report the sale on a gross basis, and the cost of the service provider is recognized in cost of goods sold.

Similarly, we recognize revenue from agency sales transactions on a net sales basis. In agency sales transactions, we facilitate product sales by equipment and software manufacturers directly to our customers and receive agency, or referral, fees for such transactions. We do not take title to the products or assume any maintenance or return obligations in these transactions; title is passed directly from the supplier to our customer.

Amounts recognized on a net basis included in net sales for such third-party services and agency sales transactions were \$17,463, \$14,022, and \$12,337 for the years ended December 31, 2011, 2010, and 2009, respectively.

Although service revenues represent a small percentage of our consolidated revenues, we offer a wide range of services, including design, installation, configuration, and other services performed by our personnel and third-party providers. In certain arrangements, we provide one or more services in addition to the delivery of hardware product or products. Under these multiple-element arrangements, each service performed and product delivered is considered a separate deliverable and, accordingly, qualifies as a separate unit of accounting. To estimate the selling price of such deliverables, we have available either vendor specific objective evidence or third party evidence of the selling price. Revenue is recognized when the product or service is delivered, consistent with our general revenue recognition policy.

Cost of Sales and Certain Other Costs

Cost of sales includes the invoice cost of the product, direct employee and third party cost of services, direct costs of packaging, inbound and outbound freight, and provisions for inventory obsolescence, adjusted for discounts, rebates, and other vendor allowances. Direct operating expenses relating to our purchasing function and receiving, inspection, internal transfer, warehousing, packing and shipping, and other expenses of our distribution center are included in our SG&A expenses. Accordingly, our gross margin may not be comparable to those of other entities who include all of the costs related to their distribution network in cost of goods sold. Such distribution costs included in our SG&A expenses are as follows:

Years Ended December 31,		
2011	2010	2009
\$13,455	\$ 12,180	\$ 11,798

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. The majority of payments due from credit card processors and banks for third-party credit card and debit card transactions process within one to five business days. All credit card and debit card transactions that process in less than seven days are classified as cash and cash equivalents. Amounts due from banks for credit card transactions classified as cash equivalents totaled \$3,531 and \$3,134 at December 31, 2011 and 2010, respectively.

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Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based on payment history and customer creditworthiness. We maintain an allowance for estimated doubtful accounts based on our historical experience and the customer credit issues identified. Our customers do not post collateral for open accounts receivable. We monitor collections regularly and adjust the allowance for doubtful accounts as necessary to recognize any changes in credit exposure. Trade receivables are charged off in the period in which they are deemed uncollectible. Recoveries of trade receivables previously charged are recorded when received.

Inventories

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

Vendor Allowances

We receive allowances from merchandise vendors for price protections, discounts, product rebates, and other programs. These allowances are treated as a reduction of the vendor's prices and are recorded as adjustments to cost of sales or inventory, as applicable. Allowances for product rebates that require certain volumes of product sales or purchases are recorded as the related milestones are probable of being met.

Advertising Costs and Allowances

Costs of producing and distributing catalogs are charged to expense in the period in which the catalogs are first issued. Other advertising costs are expensed as incurred.

Vendors have the ability to place advertisements in our catalogs or fund other advertising activities for which we receive advertising allowances. These vendor allowances, to the extent that they represent specific reimbursements of the underlying incremental and identifiable costs, are offset against SG&A expenses. Advertising allowances that cannot be associated with a specific program funded by an individual vendor or that exceed the fair value of advertising expense associated with that program are classified as offsets to cost of sales or inventory. Our vendor partners generally consolidate their funding of advertising and other marketing programs, and accordingly, we classify substantially all vendor consideration as a reduction of cost of sales or inventory rather than a reduction of advertising expense. Advertising expense, which is classified as a component of SG&A expenses, totaled \$20,858, \$17,887, and \$17,126, for the years ended December 31, 2011, 2010, and 2009, respectively.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization is provided for financial reporting purposes over the estimated useful lives of the assets ranging from three to seven years. Computer software, including licenses and internally developed software, is capitalized and amortized over lives ranging from three to five years. Depreciation is provided using the straight-line method. 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.

When events or circumstances indicate a potential impairment, we evaluate the carrying value of property and equipment based upon current and anticipated undiscounted cash flows. We recognize an impairment when it is probable that such estimated future cash flows will be less than the asset carrying value. In 2009, we ceased further development on a customer relationship management ("CRM") module of internally developed software

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and determined that we would not realize any future cash flows from this CRM software module. As a result, we recognized a special charge of \$11,681 in our operating results for the year ended December 31, 2009, which consisted of a non-cash asset impairment write-off of \$11,609 representing the CRM module's capitalized cost and \$72 in related restructuring costs. See Note 7.

Goodwill and Other Intangible Assets

Our intangible assets consist of (1) goodwill, which is not subject to amortization; (2) indefinite lived intangibles, which consist of certain trademarks that are not subject to amortization; and (3) amortizing intangibles, which consist of customer lists, tradenames, and certain technology licensing agreements, which are being amortized over their useful lives.

Note 3 describes the annual impairment methodology that we employ on January 1st of each year in calculating the recoverability of goodwill. This same impairment test is performed at other times during the course of a year should an event occur or circumstance change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Non-amortizing intangibles are also subject to annual impairment tests and interim tests if conditions require.

Recoverability of amortizing intangibles assets is assessed only when events have occurred that may give rise to 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.

Concentrations

Concentrations of credit risk with respect to trade account receivables are limited due to the large number of customers comprising our customer base.

No single customer, other than the federal government, accounted for more than 3% of total net sales in 2011, 2010, and 2009. Net sales to the federal government in 2011, 2010, and 2009 were \$176,820, \$189,797, and \$154,835, or 8.4%, 9.6%, and 9.9% of total net sales, respectively.

During the years ended December 31, 2011, 2010, and 2009, product purchases from Ingram Micro, Inc., our largest vendor, accounted for approximately 25%, 25%, and 23%, respectively, of our total product purchases. Purchases from Synnex Corporation comprised 14%, 12%, and 11% of our total product purchases in 2011, 2010, and 2009, respectively. Purchases from Tech Data Corporation comprised 12%, 14%, and 15% of our total product purchases in 2011, 2010, and 2009, respectively. Purchases from Hewlett-Packard Company comprised 10%, 9%, and 10% of our total product purchases in 2011, 2010, and 2009, respectively. No other vendor supplied more than 10% of our total product purchases in 2011, 2010, or 2009. We believe that, while we may experience some short-term disruption, alternative sources for products obtained directly from Ingram Micro, Tech Data, Synnex, and HP are available to us.

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Products manufactured by HP represented 28% of our net sales in both years ended December 31, 2011 and 2010, and 26% for the year ended December 31, 2009. We believe that in the event we experience either a short-term or permanent disruption of supply of HP products, such disruption would likely have a material adverse effect on our results of operations and cash flows.

Earnings Per Share

Basic earnings (loss) 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 nonvested stock units and stock options outstanding, if dilutive. In periods of net loss, dilutive securities are antidilutive in calculating diluted loss per share due to operating losses realized in the period and therefore are not included in the calculation.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Numerator:			
Net income (loss)	<u>\$28,787</u>	<u>\$22,961</u>	<u>\$ (1,222)</u>
Denominator:			
Denominator for basic earnings (loss) per share	26,703	27,007	26,833
Dilutive effect of employee equity awards	97	46	—
Denominator for diluted earnings (loss) per share	<u>26,800</u>	<u>27,053</u>	<u>26,833</u>
Earnings (loss) per share:			
Basic	<u>\$ 1.08</u>	<u>\$ 0.85</u>	<u>\$ (0.05)</u>
Diluted	<u>\$ 1.07</u>	<u>\$ 0.85</u>	<u>\$ (0.05)</u>

For the years ended December 31, 2011, 2010, and 2009, the following unexercised stock options were excluded from the computation of diluted earnings (loss) per share because the effect would have been anti-dilutive:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Common stock options	399	737	1,179

Recently Issued Financial Accounting Standards

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2011-04, Fair Value Measurement (Topic 820)—Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements (as defined in Note 4). ASU 2011-04 is effective for us in our first quarter of fiscal 2012 and should be applied prospectively. We do not expect the adoption of ASU 2011-04 to have a material impact on our financial position, results of operations, or cash flows.

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2. ACQUISITION OF VALCOM TECHNOLOGY

On March 17, 2011, we completed the acquisition of ValCom Technology (“ValCom”), a provider of IT infrastructure and onsite managed services. The purchase of ValCom is consistent with our strategy to expand our services capabilities. Under the terms of the stock purchase agreement, we paid \$8,495 at closing. In addition, we agreed to pay up to \$3,000 upon the achievement of three performance milestones. The total purchase price was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the closing date. The excess of purchase price over the aggregate fair values was recorded as goodwill. This goodwill represents potential revenue increases through synergies with our existing customer base and the assembled workforce of sales representatives and service technicians of ValCom that we acquired in the transaction. The goodwill balance of \$3,216 is expected to be fully deductible for tax purposes. Since the date of acquisition, ValCom’s external sales of \$28,644 and income from operations were not material to our consolidated results. Accordingly, we have not presented ValCom’s sales or operating results on a pro forma basis. We incurred \$671 of transaction costs in 2011 related to the acquisition, which we have reported in SG&A expenses in our consolidated statement of operations for the year ended December 31, 2011. The following table reflects the allocation of the purchase price at fair value as of the closing date.

	Purchase Price Allocation
Current assets (including \$4,750 of cash)	\$ 8,576
Fixed assets, including capitalized software	3,157
Goodwill	3,216
Intangible assets:	
Customer list	3,400
Tradenname	200
Total assets acquired	18,549
Acquired liabilities	(7,174)
Net assets acquired	11,375
Liability for contingent consideration (gross value of \$3,000)	(2,880)
Net purchase price at closing	8,495
Less cash acquired	(4,750)
Purchase price at closing, net of cash acquired	<u>\$ 3,745</u>

The fair value of the contingent consideration as of the acquisition date was assessed at \$2,880. The contingent consideration was valued based on management’s estimates as of the measurement date, including estimates of the probability of achievement of the performance milestones. The first of three milestones was achieved during the second quarter of 2011, and as a result, we paid \$1,000 of the contingent consideration. The difference in fair value of \$80 between the valuation date (or acquisition date) and the balance sheet date was charged to earnings. The remaining two milestones have payment dates in 2012 and require payment if ValCom achieves certain revenue goals. Additional adjustments to the fair value of the remaining contingent consideration will be reflected in our operating results.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill and intangible assets with indefinite lives are not amortized but are subject to an annual impairment test. These assets are tested more frequently if events or circumstances occur that would indicate a potential decline in fair value. The goodwill impairment test, performed at a reporting unit level, is a two-step test that requires, under the first test, that we determine the fair value of a reporting unit and compare it to the reporting unit’s carrying value, including goodwill. We use established income and market valuation approaches to determine the fair value of a reporting unit.

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Our annual impairment test of an indefinite-lived trademark and goodwill is set as of the first day of the year. Goodwill is held by the two reporting units comprising our Large Account segment, including \$3,216 of goodwill acquired in our ValCom purchase in the first quarter of 2011. We determined that the fair values of the trademark and the reporting units to which the goodwill balances relate substantially exceeded the respective carrying values. Accordingly, we did not identify any impairment for 2011.

To determine the fair value of each reporting unit, we considered its operating results and future projections, as well as changes in the Company's overall market capitalization. The significant assumptions used in our discounted cash flow analysis include: projected cash flows and profitability, the discount rate used to present value future cash flows, working capital requirements, and terminal growth rates. Cash flows and profitability assumptions include sales growth, gross margin, and SG&A growth assumptions which are generally based on historical trends. The discount rate used is a "market participant" weighted average cost of capital ("WAAC"). For our computation of fair value as of January 1, 2011, we used a WAAC rate of 13.5% and estimated terminal growth rate at 5.0% and working capital requirements at 7.5% of revenues. The carrying amount of goodwill for the two years ended December 31, 2011 by applicable operating segment is as follows:

	SMB	Large Account	Public Sector	Total
Balance at December 31, 2010:				
Goodwill	\$ 1,173	\$48,060	\$ 7,634	\$56,867
Accumulated impairment losses	(1,173)	—	(7,634)	(8,807)
Net balance	<u>\$ —</u>	<u>\$48,060</u>	<u>\$ —</u>	<u>\$48,060</u>
Balance at December 31, 2011:				
Goodwill	1,173	51,276	7,634	60,083
Accumulated impairment losses	(1,173)	—	(7,634)	(8,807)
Net balance	<u>\$ —</u>	<u>\$51,276</u>	<u>\$ —</u>	<u>\$51,276</u>

Intangible Assets

Our intangible assets include the MoreDirect tradename of \$1,190 at both December 31, 2011 and 2010, which has an indefinite life and is not subject to amortization. In the first quarter of 2011, we also acquired a customer list and the ValCom tradename as part of our acquisition of ValCom. These intangible assets will be amortized in proportion to the original estimates of the future cash flows underlying the valuation of the intangible assets. The weighted-average period over which we expect to amortize the intangible assets that we acquired as part of the ValCom acquisition is 7.8 years. During the second quarter of 2011, we purchased a technology license for \$450, which we expect to amortize ratably over five years.

Our amortizable intangible assets and the related accumulated amortization are detailed below:

	Estimated Useful Lives	December 31, 2011			December 31, 2010		
		Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Tradename	5	\$ 200	\$ 64	\$ 136	\$ —	\$ —	\$ —
Customer List	8	3,400	336	3,064	—	—	—
License Agreements	5	1,250	435	815	800	204	596
Total Intangible Assets		<u>\$4,850</u>	<u>\$ 835</u>	<u>\$4,015</u>	<u>\$ 800</u>	<u>\$ 204</u>	<u>\$ 596</u>

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For the years ended December 31, 2011, 2010, and 2009, we recorded amortization expense of \$631, \$293, and \$941, respectively. The estimated amortization expense relating to the tradename, customer list, and licensing agreements for each of the five succeeding years and thereafter is as follows:

<u>For the Years Ending December 31,</u>	
2012	\$937
2013	789
2014	776
2015	602
2016	371
2017 and thereafter	540

4. FAIR VALUE

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and contingent liability related to the ValCom acquisition. The carrying values of cash, accounts receivable, and accounts payable approximate their fair values due to their short-term nature. We are required to measure fair value under a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Include other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs which are supported by little or no market activity.

We measure our cash equivalents at fair value and classify such assets within Level 1 of the fair value hierarchy. The classification has been determined based on the manner in which we value our cash equivalents, primarily using quoted market prices for identical assets. The Level 3 liability consists of contingent consideration related to our acquisition of ValCom in the first quarter of 2011. The fair value of the contingent consideration was estimated by applying the income approach, which utilizes significant inputs that are unobservable in the market. Key assumptions include a discount rate of 4.8% and a 100% probability of achievement. A roll forward of Level 3 liabilities is as follows:

Balance January 1, 2011	\$ —
Purchases recorded at the acquisition date	2,880
Payments	(1,000)
Change in fair value (included within SG&A expenses)	80
Balance December 31, 2011	<u>\$ 1,960</u>

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Assets measured at fair value on a recurring basis consisted of the following types of instruments at December 31, 2011 and 2010:

	Fair Value Measurements at Reporting Date Using			Total Balance
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash Equivalents:				
Money market fund deposits at December 31, 2011	\$ 38	\$ —	\$ —	\$ 38
Money market fund deposits at December 31, 2010	1,036	—	—	1,036
Liabilities				
Accrued expenses and other liabilities Contingent liability at December 31, 2011	—	—	1,960	1,960

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	December 31,	
	2011	2010
Trade	\$287,184	\$230,188
Vendor returns, rebates, and other	9,814	9,818
Advertising consideration	3,692	3,895
Due from employees	199	191
Due from affiliates	25	4
Total Gross Accounts Receivable	<u>300,914</u>	<u>244,096</u>
Allowances for:		
Sales returns	(2,432)	(3,244)
Doubtful accounts	(3,294)	(2,841)
Accounts Receivable, net	<u>\$295,188</u>	<u>\$238,011</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	December 31,	
	2011	2010
Facilities and equipment under capital lease with affiliate	\$ 7,215	\$ 7,215
Leasehold improvements	7,174	7,031
Furniture and equipment	29,150	26,161
Computer software, including licenses and internally-developed software	46,947	36,404
Total	<u>90,486</u>	<u>76,811</u>
Accumulated depreciation and amortization	(67,916)	(63,311)
Property and equipment, net	<u>\$ 22,570</u>	<u>\$ 13,500</u>

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We recorded depreciation and amortization expense for property and equipment, including capital lease amortization, of \$5,320, \$5,137, and \$5,855 for the years ended December 31, 2011, 2010, and 2009 respectively.

7. SPECIAL CHARGES

In 2009, we ceased further development of an internally developed CRM software module as a result of identified significant increases in the estimated costs to complete and significant extensions of delivery schedules. We further determined that we would not realize any future cash flows from this CRM module, and as a result, we recorded a special charge of \$11,681, which consisted of a non-cash asset write-off of \$11,609 representing the write-off of the abandoned CRM software's capitalized cost and \$72 in related restructuring costs. We also recorded charges in 2009 related to workforce reduction and management restructuring costs, classified as workforce reductions and other in the table below. We did not have any special charges in 2010 or 2011.

A roll forward of liabilities related to special charges for the three years ended December 31, 2011 is shown below.

	Workforce Reductions & Other	CRM Asset Write-Off	Total
Balance, January 1, 2009	\$ 1,264	\$ —	\$ 1,264
Charges	1,145	11,681	12,826
Adjustments	(16)	(11,609)	(11,625)
Cash Payments	(2,041)	(72)	(2,113)
Balance, December 31, 2009	352	—	352
Cash Payments	(336)	—	(336)
Balance, December 31, 2010	16	—	16
Cash Payments	(16)	—	(16)
Balance, December 31, 2011	\$ —	\$ —	\$ —

Non-cash special charges in 2009 totaled \$11,625 and are reflected as an "adjustment" in the above roll forward. Liabilities at December 31, 2010 were reported as accrued payroll on the consolidated balance sheet and paid in the first quarter of 2011.

8. BANK BORROWINGS

We have a \$50,000 credit facility collateralized by substantially all of our assets. This facility can be increased, at our option, to \$80,000 for approved acquisitions or other uses authorized by the lender at substantially the same terms. Amounts outstanding under this facility bear interest at the one-month London Interbank Offered Rate, or LIBOR, plus a spread based on our funded debt ratio, or in the absence of LIBOR, the prime rate (3.25% at December 31, 2011). The one-month LIBOR rate at December 31, 2011 was 0.30%. The credit facility includes various customary financial ratios and operating covenants, including minimum net worth and maximum funded debt ratio requirements, and default acceleration provisions, none of which we believe significantly restricts our operations. Funded debt ratio is the ratio of average outstanding advances under the credit facility to EBITDA (Earnings Before Interest Expense, Taxes, Depreciation, Amortization, and Special Charges). The maximum allowable funded debt ratio under the agreement is 2.0 to 1.0. Borrowings under the credit facility in 2011 were minimal in amount and duration and were utilized to facilitate short term working capital requirements. Our financial ratio did not limit potential borrowings at December 31, 2011. Decreases in our consolidated EBITDA, however, could limit our potential borrowings under the credit facility.

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We had \$5,267 outstanding under this credit facility at December 31, 2011, and had no outstanding bank borrowings at December 31, 2010. In February of 2012, we entered into a new bank facility that matures in the first quarter of 2017, at which time amounts outstanding become due. The new bank facility contains substantially the same terms and conditions as our prior facility, except that the loan is collateralized only by receivables, and that it no longer contains restrictions on the repurchase of our common stock or the payment of dividends.

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

<u>Year ended December 31,</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Amount Outstanding</u>	<u>Average Amount Outstanding</u>
2011	0.8%	\$ 21,007	\$ 750
2010	3.3	5,000	58
2009	3.3	20,509	94

9. TRADE CREDIT AGREEMENTS

At December 31, 2011 and 2010, 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 first position in certain branded products inventory financed by the financial institutions up to an aggregated amount of \$47,000. 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, 2011 and 2010, accounts payable included \$22,827 and \$14,603, respectively, owed to these financial institutions.

10. CAPITAL LEASE

In November 1997, we entered into a fifteen-year lease for our corporate headquarters with an entity controlled by our principal stockholders. 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 either directly to providers or 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 \$922 and \$1,403 as of December 31, 2011 and 2010, respectively.

Future aggregate minimum annual lease payments under the capital lease at December 31, 2011 are as follows:

<u>Year Ending December 31</u>	<u>Payments</u>
2012	\$ 1,138
2013	1,045
Total minimum payments (excluding taxes, maintenance, and insurance)	2,183
Less amount representing interest	223
Present value of minimum lease payments	1,960
Less current maturities (excluding interest)	971
Long-term portion	\$ 989

11. STOCKHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Preferred Stock

Our Amended and Restated Certificate of Incorporation (the "Restated Certificate") authorizes the issuance of up to 10,000 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 December 31, 2011 or 2010.

Share Repurchase Authorization

On March 28, 2001, our Board of Directors authorized the spending of up to \$15,000 to repurchase our common stock. However, our bank credit facility previously limited such repurchases subsequent to June 2005 to \$10,000. In 2011, our bank amended, at our request, our line of credit to increase the aggregate dollar limit from \$10,000 to \$25,000 to repurchase shares and pay dividends without bank approval. We consider block repurchases directly from larger stockholders, as well as open market purchases, in carrying out our ongoing stock repurchase program.

We repurchased 461 shares for \$3,823 in 2011, 423 shares for \$2,857 in 2010, and 78 shares for \$353 in 2009. As of December 31, 2011, we have repurchased an aggregate of 1,520 shares for \$10,768. The maximum approximate dollar value of shares that may yet be purchased under the program is \$4,232. We have issued nonvested shares from treasury stock and have reflected, upon the vesting of such shares, the net remaining balance of treasury stock on the consolidated balance sheet. In addition, we withheld 26 shares, having an aggregate fair value of \$206, upon the vesting of nonvested stock to satisfy related employee tax obligations during the year ended December 31, 2011. Such transactions were recognized as a repurchase of common stock and returned to treasury but did not apply against authorized repurchase limits under our previous bank line agreement or Board of Directors' authorization.

Special Dividend Payment

During the fourth quarter of 2011, we paid a special, one-time cash dividend of \$0.40 per share to shareholders of record at the close of business on November 25, 2011. The total amount of the special dividend payment was \$10.6 million. We have no current plans to pay additional cash dividends on our common stock in the foreseeable future, however, declaration of any future cash dividends will depend upon our financial position, strategic plans, and general business conditions.

Equity Compensation Plan Descriptions

In November 1997, the Board adopted and the stockholders approved the 1997 Stock Incentive Plan (the "1997 Plan"). Under the terms of the 1997 Plan, we were authorized, for a ten-year period, to grant stock options, nonvested stock, and other stock-based awards. The 1997 Plan expired in November 2007. Under such plan, options to purchase 418 shares remain outstanding as of December 31, 2011.

In 2007, the Board adopted and our stockholders approved the 2007 Stock Incentive Plan (the "Original 2007 Plan"). A total of 500 shares was authorized for issuance by stockholders under the Original 2007 Plan. In April 2009, the Board adopted an amendment to, and restatement of, the Original 2007 Plan, to among other things, increase the number of shares of common stock reserved for issuance to 700 shares. Our shareholders approved the Amended and Restated 2007 Stock Incentive Plan (the "2007 Plan") in June 2009. In May 2010, our shareholders approved an amendment to the 2007 Plan to increase from 700 to 1,000 the number of shares of common stock authorized for issuance under the 2007 Plan. Under the terms of the 2007 Plan, we are authorized,

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for a ten-year period to grant options, stock appreciation rights, nonvested stock, nonvested stock units, and other stock-based awards to employees, officers, directors, and consultants. As of December 31, 2011, there were 133 shares eligible for future grants under the 2007 Plan.

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 Purchase Plan, as amended, our employees are eligible to purchase company stock at 95% of the purchase price as of the last business day of each six-month offering period. An aggregate of 938 shares of common stock has been reserved for issuance under the Purchase Plan, of which 872 shares have been purchased.

Accounting for Share-Based Compensation

We measure the grant date fair value of equity awards given to employees and recognize that cost, adjusted for forfeitures, over the period that services are performed. We value grants with multiple vesting periods as a single award.

We record share-based compensation costs as a component of SG&A expenses. In 2011, we granted nonvested stock units, whereas in 2010, we granted stock options and nonvested stock awards, and in 2009, we granted only nonvested stock.

We employ the Black-Scholes option valuation model to assess the grant date fair value of each option grant. The application of this model requires certain key input assumptions, including expected volatility, option term, and risk-free interest rates. Expected volatility is based on the historical volatility of our common stock. The expected term of an option grant is estimated using the historical exercise behavior of employees and directors. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve corresponding to the stock option's expected average life. We estimate expected forfeitures based upon historical patterns of employee turnover.

The key weighted-average assumptions we used to apply this pricing model to employee stock options granted in the year ended December 31, 2010 were as follows:

	<u>2010</u>
Risk-free interest rate	2.26%
Volatility	68.01%
Expected life of option grants	4.5 years
Dividend yield	0%

The following table summarizes the components of share-based compensation recorded as expense for the three years ended December 31, 2011:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Stock options	\$ 294	\$ 769	\$ 786
Nonvested shares	530	762	634
Pre-tax compensation expense	824	1,531	1,420
Tax benefit	(234)	(475)	(420)
Net effect on net income	<u>\$ 590</u>	<u>\$1,056</u>	<u>\$1,000</u>

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We have historically settled stock option exercises with newly issued common shares. The intrinsic value of options exercised in 2011 and 2010 was \$253 and \$122, respectively, and no options were exercised in 2009. The following table sets forth our stock option activity for the year ended December 31, 2011:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2011	814	\$ 9.10		
Granted	—	—		
Exercised	(65)	6.25		
Forfeited	(22)	8.09		
Expired	(64)	10.94		
Outstanding, December 31, 2011	<u>663</u>	<u>9.23</u>	<u>5.18</u>	<u>\$ 1,667</u>
Vested and expected to vest	<u>619</u>	<u>9.35</u>	<u>5.02</u>	<u>1,514</u>
Exercisable, December 31, 2011	<u>550</u>	<u>9.60</u>	<u>4.70</u>	<u>1,257</u>

The weighted-average grant date fair value of options granted in 2010 was \$3.65. Unearned compensation cost related to the unvested portion of outstanding stock options as of December 31, 2011 was \$194 and is expected to be recognized over a weighted-average period of approximately two years.

We have issued nonvested stock awards from treasury stock. Recipients of these awards possess the rights of stockholders, including voting rights and the right to receive dividends. In 2011, we issued nonvested stock units which vest over carrying periods up to six years. Recipients of nonvested stock units do not possess stockholder rights. To determine the fair value of these two grant types, we use the end of day market value of our common stock on the grant date.

The following table summarizes our nonvested stock award and unit activity as of December 31, 2011:

	Nonvested Stock Awards		Nonvested Stock Units	
	Shares	Weighted- Average Grant Date Fair Value	Shares	Weighted- Average Grant Date Fair Value
Nonvested at January 1, 2011	242	5.78	—	—
Awarded	—	—	124	5.54
Forfeited	(25)	6.92	—	—
Vested	(92)	5.92	—	—
Nonvested at December 31, 2011	<u>125</u>	<u>5.45</u>	<u>124</u>	<u>5.54</u>

The weighted-average grant-date fair values of nonvested stock awards granted in 2010 and 2009 were \$4.87 and \$4.51, respectively. The total fair values of nonvested stock awards that vested in 2011, 2010, and 2009 were \$731, \$859, and \$576, respectively. Unearned compensation cost related to the nonvested portion of outstanding nonvested stock awards as of December 31, 2011 was \$379 and is expected to be recognized over a weighted-average period of approximately 1.4 years. Unearned compensation cost related to the nonvested portion of outstanding nonvested stock units was \$400 as of December 31, 2011, and is expected to be recognized over a weighted-average period of approximately 4.9 years.

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12. INCOME TAXES

The provision for income taxes consisted of the following:

	Years Ended December 31,		
	2011	2010	2009
Current:			
Federal	\$13,130	\$11,066	\$ 1,519
State	2,865	2,841	502
Total current	<u>15,995</u>	<u>13,907</u>	<u>2,021</u>
Deferred:			
Federal	2,220	1,585	(1,406)
State	429	(63)	(70)
Total deferred	<u>2,649</u>	<u>1,522</u>	<u>(1,476)</u>
Net provision	<u>\$18,644</u>	<u>\$15,429</u>	<u>\$ 545</u>

The components of the deferred taxes at December 31, 2011 and 2010 are as follows:

	2011	2010
Deferred tax assets:		
Provisions for doubtful accounts	\$ 1,284	\$ 1,148
Inventory costs capitalized for tax purposes	121	163
Inventory and sales returns reserves	458	534
Deductible expenses, primarily employee-benefit related	375	277
State tax contingency and other accruals	1,050	917
Other	1,148	774
Compensation under non-statutory stock option agreements	765	842
State tax loss carryforwards	528	611
State tax credit carryforwards	371	553
Federal benefit for uncertain state tax positions	772	800
Capitalized software	324	525
Total gross deferred tax assets	7,196	7,144
Less: Valuation allowance	(528)	(673)
Net deferred tax assets	<u>\$ 6,668</u>	<u>\$ 6,471</u>
Deferred tax liabilities:		
Goodwill and other intangibles	\$ (9,734)	\$(7,940)
Property and equipment	(1,524)	(540)
Total gross deferred tax liabilities	(11,258)	(8,480)
Net deferred tax liability	<u>\$ (4,590)</u>	<u>\$(2,009)</u>
Current net deferred tax assets	\$ 4,436	\$ 3,813
Noncurrent deferred tax liability	(9,026)	(5,822)
Net deferred tax liability	<u>\$ (4,590)</u>	<u>\$(2,009)</u>

The state tax credit carryforwards are available to offset future state income taxes in years with sufficient state income levels to create creditable tax and within the applicable carryforward period for these credits. Total tax credit carryforwards aggregated \$570 and \$850 at December 31, 2011 and 2010, respectively. These credits are subject to a five-year carryforward period with \$172 expiring beginning in 2012, \$9 in 2014, and \$389 in

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2015. Additionally, certain of our subsidiaries have state net operating loss carryforwards aggregating \$812 at December 31, 2011, and representing state tax benefits, net of federal taxes, of approximately \$528. These loss carryforwards are subject to twenty-year carryforward periods, with \$812 expiring after 2016. We have provided valuation allowances of \$528 and \$673 at December 31, 2011 and 2010 respectively, against the state tax credit and state tax loss carryforwards, representing the portion of carryforward credits and losses that we believe are not likely to be realized. The net change in the valuation allowance in 2011 included a reduction of \$145 related to the utilization and expiration of state net operating loss carryforwards and state tax credit carryforwards. The \$356 change in the valuation allowance in 2010 represents a reduction related to the utilization and expiration of state net operating loss carryforwards and state tax credit carryforwards. The \$411 change in the valuation allowance in 2009 represents a reduction related to the expiration of state net operating loss carryforwards and state tax credit carryforwards.

A reconciliation of our 2011, 2010, and 2009 income tax provision to total income taxes at the statutory federal tax rate is as follows:

	2011	2010	2009
Federal income taxes, at statutory tax rate	\$16,601	\$13,436	\$(237)
State income taxes, net of federal benefit	2,573	1,802	249
Nondeductible expenses	8	161	433
Other—net	(538)	30	100
Tax provision, at effective income tax rate	<u>\$18,644</u>	<u>\$15,429</u>	<u>\$ 545</u>

We file one consolidated United States federal income tax return that includes all of our subsidiaries as well as several consolidated, combined, and separate company returns in many U.S. state tax jurisdictions. The tax years 2007-2010 remain open to examination by the major state taxing jurisdictions in which we file. The tax years 2008-2010 remain open to examination by the IRS.

A reconciliation of unrecognized tax benefits for 2011, 2010, and 2009, is as follows:

	2011	2010	2009
Balance at January 1,	\$1,791	\$2,182	\$2,275
Additions based on tax positions related to the current year	—	—	40
Reductions based on tax positions of prior years	—	(6)	(90)
Lapses of applicable statute of limitations	(256)	(385)	(43)
Balance at December 31,	<u>\$1,535</u>	<u>\$1,791</u>	<u>\$2,182</u>

We recognize interest and penalties related to unrecognized income tax benefits as a component of income tax expense, and the corresponding accrual is included as a component of our liability for unrecognized income tax benefits. During the years ended December 31, 2011, 2010, and 2009, we recognized interest and penalties totaling \$120, \$185, and \$188, respectively. At December 31, 2011 and 2010, accrued interest aggregated \$992 and \$1,017, respectively, and accrued penalties aggregated \$304 and \$318, respectively. During the year ended December 31, 2011, we reduced our unrecognized tax benefits by \$149 for interest and penalties related to lapses of applicable statute of limitations. As of December 31, 2011 and 2010, net unrecognized tax benefits and the related interest and penalties, which would favorably affect our effective tax rate, if recognized, are \$1,736 and \$1,802, respectively.

We do not anticipate that total unrecognized tax benefits will change significantly due to the settlement of audits, expiration of statute of limitations, or other reasons in the next twelve months.

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13. 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 2011, 2010, or 2009. Given the decline in our net sales we experienced in 2009, we suspended, effective July 1, 2009, employer-matching contributions to the employee savings element of such plan. Effective January 1, 2011, we reinstated the employer matching contribution. We made matching contributions of \$1,288 in 2011 and \$595 in 2009.

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

We lease an office facility adjacent to our corporate headquarters from an entity controlled by our principal stockholders. This operating lease commenced in August 2008 and has a ten-year term with the option to renew for two additional two-year terms. We also lease several other buildings from our principal stockholders on a month-to-month basis. We believe that the above leasing transactions were consummated on terms comparable to terms we could have obtained with unrelated third parties.

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

Future aggregate minimum annual lease payments under these leases at December 31, 2011 are as follows:

<u>Year Ending December 31</u>	<u>Related Parties</u>	<u>Others</u>	<u>Total</u>
2012	\$ 233	\$1,889	\$2,122
2013	233	705	938
2014	233	560	793
2015	233	536	769
2016	233	370	603
2017 and thereafter	369	254	623

Total rent expense aggregated \$3,104, \$2,594, and \$3,137 for the years ended December 31, 2011, 2010, and 2009, respectively, under the terms of the leases described above. Such amounts included \$524, \$380, and \$360 in 2011, 2010, and 2009, respectively, paid to related parties.

Sports Marketing Agreements

We have entered into multi-year sponsorship agreements with the New England Patriots and the Boston Red Sox through 2013 and 2014, respectively. These agreements grant us various marketing rights and seating arrangements.

Future aggregate minimum annual payments required under these agreements as of December 31, 2011 are as follows:

<u>Year Ending December 31</u>	<u>Total</u>
2012	\$396
2013	408
2014	114
2015 and thereafter	—

Total marketing expense payments under agreements with these organizations aggregated \$935, \$879, and \$517 for the years ended December 31, 2011, 2010, and 2009, respectively, under the terms of the agreements described above.

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Contingencies

We are subject to various legal proceedings and claims, including patent infringement 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 subject to audits by states on sales and income taxes, unclaimed property, employment matters, and other assessments. A comprehensive multi-state unclaimed property audit continues to be in progress, and total accruals for unclaimed property aggregated \$1,639 and \$1,595 at December 31, 2011 and 2010, respectively. While management believes that known and estimated unclaimed property liabilities have been adequately provided for, it is too early to determine the ultimate outcome of such audits, as no formal assessments have yet been made. Additional liabilities for this or other audits could be assessed, and such outcomes could have a material negative impact on our financial position, results of operations, and cash flows.

15. OTHER RELATED-PARTY TRANSACTIONS

As described in Notes 10 and 14, we have leased certain facilities from related parties. Other related-party transactions include the transactions summarized below. We believe such transactions were consummated on terms comparable to terms we could have obtained with unrelated third parties. Related parties consist primarily of affiliated companies related to us through common ownership.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue:			
Sales of services to affiliated companies	\$94	\$82	\$61

16. SEGMENT AND RELATED DISCLOSURES

We are required to report profits and losses and certain other information about our “reportable operating segments” in our annual and interim financial statements. The internal reporting structure used by our chief operating decision maker (“CODM”) to assess performance and allocate resources determines the basis for our reportable operating segments. Our CODM is comprised of certain senior executive officers, who collectively evaluate operations and allocate resources based on a measure of operating income.

Our operations are organized under four reporting segments—the SMB segment, which serves primarily small- and medium-sized businesses; the Large Account segment, which serves primarily medium-to-large corporations; the Public Sector segment, which serves primarily federal, state, and local government and educational institutions, and the Consumer/SOHO segment, which serves the consumer and SOHO markets. In addition, the Headquarters/Other group provides services in areas such as finance, human resources, information technology, product management, and marketing. Most of the operating costs associated with the Headquarters/Other group functions are charged to the operating segments based on their estimated usage of the underlying functions. We report these charges to the operating segments as “Allocations.” Certain of the headquarters costs relating to executive oversight and other fiduciary functions that are not allocated to the operating segments are included under the heading of Headquarters/Other in the tables below.

In March 2011, we acquired ValCom, a provider of IT infrastructure and on-site managed services to medium-to-large corporations. We have included the operating results for ValCom in our Large Account segment from March 17, 2011, the closing date of the acquisition. The external sales of ValCom totaled \$28,644 since the date of acquisition and were immaterial to our consolidated results.

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Net sales presented below exclude inter-segment product revenues. Segment information applicable to our reportable operating segments for the years ended December 31, 2011, 2010, and 2009 is shown below:

	Year Ended December 31, 2011					
	SMB Segment	Large Account Segment	Public Sector Segment	Consumer/SOHO Segment	Headquarters /Other	Consolidated
Net sales	\$865,325	\$711,177	\$469,679	\$57,114		\$2,103,295
Operating income (loss) before allocations	\$ 72,144	\$ 34,229	\$ 24,637	\$ (1,064)	\$ (82,335)	\$ 47,611
Allocations	(40,610)	(5,585)	(19,751)	(3,745)	69,691	—
Operating income (loss)	\$ 31,534	\$ 28,644	\$ 4,886	\$ (4,809)	\$ (12,644)	\$ 47,611
Net interest expense and other, net						(180)
Income before taxes						\$ 47,431
<i>Selected Operating Expense:</i>						
Depreciation and amortization	\$ 26	\$ 1,377	\$ 170	\$ —	\$ 4,378	\$ 5,951
<i>Balance Sheet Data:</i>						
Goodwill	\$ —	\$ 51,276	\$ —	\$ —	\$ —	\$ 51,276
Total assets	129,287	197,715	74,788	1,749	64,480	468,019
	Year Ended December 31, 2010					
	SMB Segment	Large Account Segment	Public Sector Segment	Consumer/SOHO Segment	Headquarters /Other	Consolidated
Net sales	\$833,433	\$603,177	\$462,880	\$74,708		\$1,974,198
Operating income (loss) before allocations	\$ 68,028	\$ 30,711	\$ 22,314	\$ (3,008)	\$ (79,378)	\$ 38,667
Allocations	(40,644)	(4,355)	(18,164)	(3,954)	67,117	—
Operating income (loss)	\$ 27,384	\$ 26,356	\$ 4,150	\$ (6,962)	\$ (12,261)	\$ 38,667
Net interest expense and other, net						(277)
Income before taxes						\$ 38,390
<i>Selected Operating Expense:</i>						
Depreciation and amortization	\$ 52	\$ 443	\$ 109	—	\$ 4,826	\$ 5,430
<i>Balance Sheet Data:</i>						
Goodwill	\$ —	\$ 48,060	\$ —	\$ —	\$ —	\$ 48,060
Total assets	139,868	151,504	64,394	3,599	61,576	420,941
	Year Ended December 31, 2009					
	SMB Segment	Large Account Segment	Public Sector Segment	Consumer/SOHO Segment	Headquarters /Other	Consolidated
Net sales	\$657,038	\$427,891	\$389,297	\$95,430		\$1,569,656
Operating income (loss) before allocations	\$ 48,418	\$ 18,745	\$ 17,620	\$ (324)	\$ (85,143)	\$ (684)
Allocations	(35,233)	(3,250)	(17,080)	(5,100)	60,663	—
Operating income (loss)	\$ 13,185	\$ 15,495	\$ 540	\$ (5,424)	\$ (24,480)	(684)
Net interest expense and other, net						7
Loss before taxes						\$ (677)
<i>Selected Operating Expense:</i>						
Depreciation and amortization	\$ 186	\$ 1,214	\$ 118	—	\$ 5,278	\$ 6,796
Special charges	112	107	128	—	12,479	12,826

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Our operating segments' assets presented above consist primarily of accounts receivable, intercompany receivable, goodwill, and other intangibles. Assets for the Headquarters/Other group are managed by corporate headquarters, including cash, inventory, and property and equipment. Total assets for the Headquarters/Other group are presented net of intercompany balances eliminations of \$48,507 and \$46,111 for the years ended December 31, 2011 and 2010, respectively. Our capital expenditures consist largely of IT hardware and software purchased to maintain or upgrade our management information systems. These systems serve all of our subsidiaries, to varying degrees, and as a result, our CODM does not evaluate capital expenditures on a segment basis.

Senior management also monitors revenue by product mix (Notebook; Desktop/Server; Software; Video, Imaging, and Sound; Net/Com Product; Printer and Printer Supplies; Storage Device; Memory and System Enhancements; and Accessories/Other).

Net sales by product mix are presented below:

<u>Product Mix</u>	Years Ended December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Notebook	\$ 371,139	\$ 342,195	\$ 234,316
Desktop/Server	336,950	308,261	212,088
Software	303,048	280,873	219,567
Video, Imaging and Sound	217,187	227,654	212,885
Net/Com Product	210,758	192,624	167,284
Printers and Printer Supplies	155,515	157,028	133,857
Storage Device	154,953	144,531	128,940
Memory and System Enhancements	77,719	83,777	60,301
Accessories/Other	276,026	237,255	200,418
Total	<u>\$ 2,103,295</u>	<u>\$ 1,974,198</u>	<u>\$ 1,569,656</u>

Substantially, all of our sales in 2011, 2010, and 2009 were made to customers located in the United States. Shipments to customers located in foreign countries aggregated less than 1% in 2011, 2010, and 2009. All of our assets at December 31, 2011 and 2010 were located in the United States. Our primary target customers are SMBs comprised of 20 to 1,000 employees, federal, state, and local government agencies, educational institutions, medium-to-large corporate accounts, and consumer/SOHOs. No single customer other than the federal government accounted for more than 3% of total net sales in 2011, 2010, and 2009. Net sales to the federal government in 2011, 2010, and 2009 were \$176,820, \$189,797, and \$154,835, or 8.4%, 9.6%, and 9.9% of total net sales, respectively.

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17. SELECTED UNAUDITED QUARTERLY FINANCIAL RESULTS

The following table sets forth certain unaudited quarterly data of the Company for each of the calendar quarters in 2011 and 2010. 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.

	Quarters Ended			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
Net sales	\$461,926	\$512,561	\$ 575,646	\$ 553,162
Cost of sales	<u>403,107</u>	<u>445,667</u>	<u>505,210</u>	<u>484,427</u>
Gross profit	58,819	66,894	70,436	68,735
Selling, general and administrative expenses	<u>51,290</u>	<u>54,477</u>	<u>54,554</u>	<u>56,952</u>
Income from operations	7,529	12,417	15,882	11,783
Interest expense	(41)	(87)	(93)	(148)
Other, net	<u>65</u>	<u>32</u>	<u>32</u>	<u>60</u>
Income before taxes	7,553	12,362	15,821	11,695
Income tax provision	<u>(3,059)</u>	<u>(4,882)</u>	<u>(6,435)</u>	<u>(4,268)</u>
Net income	<u>\$ 4,494</u>	<u>\$ 7,480</u>	<u>\$ 9,386</u>	<u>\$ 7,427</u>
Earnings per common share:				
Basic	<u>\$ 0.17</u>	<u>\$ 0.28</u>	<u>\$ 0.35</u>	<u>\$ 0.28</u>
Diluted	<u>\$ 0.17</u>	<u>\$ 0.28</u>	<u>\$ 0.35</u>	<u>\$ 0.28</u>
Weighted average common shares outstanding:				
Basic	<u>26,901</u>	<u>26,852</u>	<u>26,615</u>	<u>26,451</u>
Diluted	<u>26,986</u>	<u>26,923</u>	<u>26,692</u>	<u>26,599</u>

	Quarters Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Net sales	\$408,262	\$477,546	\$ 532,827	\$ 555,563
Cost of sales	<u>359,611</u>	<u>421,564</u>	<u>470,856</u>	<u>492,267</u>
Gross profit	48,651	55,982	61,971	63,296
Selling, general and administrative expenses	<u>44,474</u>	<u>47,501</u>	<u>47,640</u>	<u>51,618</u>
Income from operations	4,177	8,481	14,331	11,678
Interest expense	(99)	(95)	(111)	(185)
Other, net	<u>75</u>	<u>35</u>	<u>49</u>	<u>54</u>
Income before taxes	4,153	8,421	14,269	11,547
Income tax provision	<u>(1,719)</u>	<u>(3,398)</u>	<u>(5,643)</u>	<u>(4,669)</u>
Net income	<u>\$ 2,434</u>	<u>\$ 5,023</u>	<u>\$ 8,626</u>	<u>\$ 6,878</u>
Earnings per common share:				
Basic	<u>\$ 0.09</u>	<u>\$ 0.19</u>	<u>\$ 0.32</u>	<u>\$ 0.26</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.18</u>	<u>\$ 0.32</u>	<u>\$ 0.26</u>
Weighted average common shares outstanding:				
Basic	<u>27,157</u>	<u>27,116</u>	<u>26,939</u>	<u>26,821</u>
Diluted	<u>27,193</u>	<u>27,156</u>	<u>26,977</u>	<u>26,888</u>

PC CONNECTION, INC. AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(amounts in thousands)

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions/ Write-Offs</u>	<u>Balance at End of Period</u>
Allowance for Sales Returns				
Year Ended December 31, 2009	2,128	29,700	(29,971)	1,857
Year Ended December 31, 2010	1,857	36,495	(35,108)	3,244
Year Ended December 31, 2011	3,244	32,969	(33,781)	2,432
Allowance for Doubtful Accounts				
Year Ended December 31, 2009	3,100	2,354	(2,789)	2,665
Year Ended December 31, 2010	2,665	2,372	(2,196)	2,841
Year Ended December 31, 2011	2,841	2,768	(2,315)	3,294

PC CONNECTION, INC.
Route 101A (730 Milford Road)
Merrimack, NH 03054

Dated as of: August 31, 2011

RBS Citizens, National Association
28 State Street
Boston, MA 02109

Re: Limited Waiver and Amendment No. 4 to Second Amended and Restated Credit and Security Agreement and related Documents

Ladies and Gentlemen:

We refer to the Second Amended and Restated Credit and Security Agreement, dated as of June 29, 2005 (as amended by that certain Amendment No. 1, dated as of August 12, 2005, Amendment No. 2, dated as of January 3, 2007 and Amendment No. 3 dated as of October 15, 2007 the "Credit Agreement"), by and among PC Connection, Inc., a Delaware corporation (the "Borrower"), certain subsidiary guarantors party thereto, and RBS Citizens, National Association, successor by merger to Citizens Bank of Massachusetts, as the lender (in such capacity, the "Lender") and agent (together with its successors and assigns in such capacity, the "Agent").

We have requested that the Agent and Lender agree to make certain amendments to the Credit Agreement and we have been advised that the Agent and Lender are prepared and would be pleased to make the amendments to the Credit Agreement upon the terms and subject to the conditions set forth below.

Accordingly, in consideration of the premises, promises, mutual covenants and agreements set forth below, and fully intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

LIMITED WAIVER

In reliance upon the representations and warranties made by the Borrower in favor of the Agent and Lenders set forth in Article IV below and subject to the prior satisfaction of the conditions to effectiveness set forth in Article III below, the Agent and the Required Lenders hereby waive the Event of Default arising under Section 10.1(d) of the Credit Agreement as a result of Additional Guarantor's (as defined below) failure to expressly join the Credit Agreement as a Guarantor pursuant to Section 7.11(a) of the Credit Agreement (the "Specified Event of Default").

The waiver set forth above is limited solely to the specific matter listed above and shall not be deemed to be a waiver of any Default or Event of Default (other than the Specified Event

of Default) or an amendment of any other provision of the Credit Agreement. Furthermore, except as specifically waived herein, nothing contained in this Amendment shall directly or indirectly in any way whatsoever either: (a) impair, prejudice, or otherwise adversely affect the rights of the Lenders or the Agent at any time to exercise any right, privilege or remedy in connection with the Credit Agreement or the Other Documents; or (b) constitute any course of conduct, course of dealing, or other basis for altering any obligation of the Borrower under the Credit Agreement or the Other Documents.

ARTICLE II

AMENDMENTS TO CREDIT AGREEMENT

Effective as of the date hereof (the "Amendment Date"), and subject to the fulfillment of the conditions contained in Article III of this amendment (this "Amendment"), the Credit Agreement is hereby amended in each of the following respects:

(a) The term, "Documents" shall, wherever used in the Credit Agreement or Other Documents, be deemed to also mean and include this Amendment. All capitalized terms used but not defined herein shall have the meanings given to such terms in the Credit Agreement.

(b) The Credit Agreement is amended as follows:

(i) Section 7.6(a) Section 7.6(a) of the Credit Agreement is amended by replacing "\$10,000,000" with "\$15,000,000".

(ii) Exhibit 2.1(a). Exhibit 2.1(a) of the Credit Agreement is amended and restated as set forth on Exhibit B to this Amendment.

(iii) Professional Computer Center, Inc., an Illinois corporation (the "Additional Guarantor"), hereby joins in and is made a Guarantor party to the Credit Agreement for all purposes thereof, and grants to the Agent, pursuant to Section 4.1 of the Credit Agreement, a continuing security interest in its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located, to secure the prompt payment and performance of the Obligations, and hereby acquires all other rights and assumes all other obligations and covenants of a Guarantor thereunder, as fully as if a direct signatory party thereto.

ARTICLE III

CONDITIONS PRECEDENT TO AMENDMENT

The Lender's and Agent's agreement herein to further amend the Credit Agreement as of the Amendment Date is subject to the fulfillment, to the satisfaction of the Agent on the date hereof, of the following conditions precedent:

(a) The Borrower, Additional Guarantor and Lender shall have executed this Amendment and delivered the same to the Agent;

-
- (b) The Guarantors shall have executed a Consent of Guarantors in the form attached as Exhibit A to this Amendment;
- (c) All representations and warranties contained herein shall be true and correct in all material respects;
- (d) No Material Adverse Effect shall have occurred since June 30, 2011;
- (e) The Additional Guarantor shall have executed and delivered to the Agent a Joinder to Amended and Restated Guaranty, in the form attached hereto as Exhibit C; and
- (f) Each condition precedent set forth in subsequent subsection (b), (e), (f) and (g) of Section 8.1 of the Credit Agreement shall have been satisfied with respect to the Additional Guarantor.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders and Agent as follows:

- (a) Representations in Agreement. Each of the representations and warranties made by the Borrower and each of its Subsidiaries to the Lender in the Credit Agreement and other Documents was true and correct in all material respects when made and is true and correct in all material respects on and as of the Amendment Date with the same full force and effect as if each of such representations and warranties had been made by the Borrower and each of its Subsidiaries on the Amendment Date and in this Amendment, except to the extent that such representations and warranties relate solely to a prior date.
- (b) No Default of Events of Default. Other than the Specified Event of Default, no Default or Event of Default exists on the Amendment Date.
- (c) Binding Effect of Documents. This Amendment has been duly executed and delivered by the Borrower and is in full force and effect as of the date hereof, and the agreements and obligations of the Borrower contained herein constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms.

ARTICLE V

MISCELLANEOUS

This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed an original, but all of which together shall constitute one instrument. Telecopied signatures hereto shall be of the same force and effect as an original of a manually signed copy. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto. Except to the extent specifically amended and supplemented hereby, all of the terms, conditions and the provisions of the Credit Agreement and each of the other Documents shall otherwise remain unmodified, and the Credit Agreement and each of the other Documents, as amended and supplemented by this Amendment, are confirmed as being in full force and effect.

[Remainder of Page Intentionally Left Blank]

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this Amendment, and return the counterpart to the undersigned, whereupon this Amendment, as so accepted by you, shall become a binding agreement between the undersigned, the Agent and the Lender.

Very truly yours,

PC CONNECTION, INC.

By: /S/ JACK FERGUSON

Name: Jack Ferguson

Title: Executive VP, Treasurer and CFO

PROFESSIONAL COMPUTER CENTER, INC.

By: /S/ GLYNN W. SCHULZE

Name: Glynn W. Schulze

Title: Secretary

The foregoing Amendment is hereby accepted by the undersigned as of the date hereof.

RBS CITIZENS, NATIONAL ASSOCIATION, as Agent and Lender

By: /S/ MARC LUBELCZYK, SVP

Name: Marc Lubelczyk

Title: Senior Vice President

EXHIBIT A

See attached.

CONSENT OF GUARANTORS

GovConnection, Inc., a Maryland limited liability company, Merrimack Services Corporation, a Delaware corporation, PC Connection Sales Corporation, a Delaware corporation, and More Direct, Inc., a Florida corporation (collectively, the "Guarantors"), have each guaranteed the Obligations of PC Connection, Inc., a Delaware corporation (the "Borrower"), under that certain Second Amended and Restated Credit and Security Agreement, dated as of June 29, 2005 (as amended by that certain Amendment No. 1, dated as of August 12, 2005, Amendment No. 2, dated as of January 3, 2007, Amendment No. 3 dated as of October 15, 2007 and Amendment No. 4 (the "Amendment"), dated as of even date herewith, the "Credit Agreement"), by and among the Borrower, the Guarantors and RBS Citizens, National Association, successor by merger to Citizens Bank of Massachusetts, as the lender and agent. By executing this consent, each of the Guarantors hereby absolutely and unconditionally reaffirms to the Lender that each such Guarantor's guaranty of the Obligations remains in full force and effect. Each of the undersigned Guarantors acknowledges and agrees to the terms and conditions of the Amendment and the Credit Agreement as amended thereby.

IN WITNESS WHEREOF, the undersigned have executed this Consent of Guarantors this 31 day of August, 2011.

GUARANTORS:

GOVCONNECTION, INC.

By /S/ GARY ANDERSON

Name: Gary Anderson

Title: Treasurer

MERRIMACK SERVICES CORPORATION

By /S/ JACK FERGUSON

Name: Jack Ferguson

Title: Executive VP, Treasurer and CFO

PC CONNECTION SALES CORPORATION

By /S/ GARY ANDERSON

Name: Gary Anderson

Title: Treasurer

PC CONNECTION EXPRESS, INC.

By /S/ WILLIAM COOPER

Name: William Cooper

Title: President

MORE DIRECT, INC.

By /S/ GARY ANDERSON

Name: Gary Anderson

Title: Treasurer

EXHIBIT B

See attached.

THIRD AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$50,000,000.00

October 15, 2007

FOR VALUE RECEIVED, the undersigned PC CONNECTION, INC., a corporation organized under the laws of the State of Delaware (hereinafter, together with its successors in title and assigns, collectively called the "Borrower"), by this promissory note (hereinafter, called "this Note"), absolutely and unconditionally promises to pay to the order of RBS CITIZENS, NATIONAL ASSOCIATION, successor by merger to Citizens Bank of Massachusetts (hereinafter, together with its successors in title and assigns, called the "Lender"), the principal sum of FIFTY MILLION DOLLARS (\$50,000,000.00) or so much thereof as shall have been advanced by the Lender to the Borrower by way of Revolving Advances under the Loan Agreement (as hereinafter defined) and shall remain outstanding, such payment to be made as hereinafter provided, and to pay interest on the principal sum outstanding hereunder from time to time from the date hereof until the said principal sum or the unpaid portion thereof shall have become due and payable as hereinafter provided.

Capitalized terms used herein without definition shall have the meanings set forth in the Loan Agreement.

The unpaid principal (not at the time overdue) under this Note shall bear interest at the rate or rates from time to time in effect under the Loan Agreement. Accrued interest on the unpaid principal under this Note shall be payable on the dates specified in the Loan Agreement.

On October 15, 2012, the date of the final maturity of this Note, there shall become absolutely due and payable by the Borrower hereunder, and the Borrower hereby promises to pay to the Lender, the balance (if any) of the principal hereof then remaining unpaid, all of the unpaid interest accrued hereon and all (if any) other amounts payable on or in respect of this Note or the indebtedness evidenced hereby.

The Borrower authorizes the Lender to make or cause to be made at or about the time of any Revolving Advance or at the time of receipt of any payment of principal of this Note, an appropriate notation on the Schedule annexed hereto reflecting the making of such Revolving Advance or the receipt of such payment. The outstanding amount of the Revolving Advance set forth on the Schedule annexed hereto shall be prima facie evidence of the principal amount thereof owing and unpaid to the Lender, but the failure to record, or any error in so recording, any such amount on the Schedule shall not limit or otherwise affect the obligations of the Borrower hereunder or under the Loan Agreement to make payments of principal of and interest on this Note when due.

Each overdue amount (whether of principal, interest or otherwise) payable on or in respect of this Note or the indebtedness evidenced hereby shall (to the extent permitted by applicable law) bear interest at the rates and on the terms provided by the Loan Agreement.

Each payment of principal, interest or other sum payable on or in respect of this Note or the indebtedness evidenced hereby shall be made by the Borrower in United States Dollars, for the account of the Lender as set forth in the Loan Agreement, on the due date of such payment, and in immediately available and freely transferable funds. All payments on or in respects of this Note or the indebtedness evidenced hereby shall be made without set-off or counterclaim and free and clear of and without any deductions, withholdings, restrictions or conditions of any nature.

This Note is made by the Borrower to the Lender pursuant to the Second Amended and Restated Credit and Security Agreement, dated as of June 29, 2005, among the Borrower, as 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, MoreDirect, Inc., a corporation organized under the laws of the State of Florida, PC Connection Express, Inc., a corporation organized under the laws of the State of Delaware and Professional Computer Center, Inc., a corporation organized under the laws of the State of Illinois (each a "Guarantor" and collectively the "Guarantors"), Citizens Bank of Massachusetts, as lender and agent, and the financial institutions which are or hereafter become a party thereto (collectively, the "Lenders") and is entitled to the benefits of said Second Amended and Restated Credit and Security Agreement (hereinafter, as originally executed, and as now or hereafter amended, modified, varied, supplemented or amended and restated called the "Loan Agreement"). This Note evidences the obligation under the Loan Agreement of the Borrower (a) to repay the principal amount of the Revolving Advances made by the Lender to the Borrower; (b) to pay interest on the principal amount hereof remaining unpaid from time to time; and (c) to pay other amounts which may become due and payable thereunder. This Note has been issued by the Borrower in replacement of the Second Amended and Restated Revolving Credit Note, dated June 29, 2005 (the "Original Note"), by the Borrower to the order of Citizens Bank of Massachusetts in the stated principal amount of \$50,000,000. The Borrower confirms that the indebtedness outstanding under and evidenced by the Original Note on the date hereof has not been repaid, satisfied or discharged but for all purposes has been continued as provided herein and that the indebtedness evidenced by this Note includes all indebtedness outstanding under the Original Note on the date hereof.

The Borrower will have an obligation to prepay principal of this Note from time to time if and to the extent required under, and upon the terms contained in, the Loan Agreement.

Pursuant to and upon the terms contained in the Loan Agreement, the entire unpaid principal of this Note, all of the interest accrued on the unpaid principal of this Note and all (if any) other amounts payable on or in respect of this Note or the indebtedness evidenced hereby may be declared to be immediately due and payable.

This Note and the obligations of the Borrower hereunder shall be governed by and interpreted and determined in accordance with the laws of the Commonwealth of Massachusetts. The Borrower hereby irrevocably waives notice of acceptance, presentment, notice of nonpayment, protest, notice of protest, suit and all other conditions precedent in connection with the delivery, acceptance, collection and/or enforcement of this Note, except for notice expressly provided for in the Loan Agreement. The Borrower hereby absolutely and irrevocably consents

and submits to the jurisdiction of the courts of the Commonwealth of Massachusetts and of any federal court located in Boston, Massachusetts in connection with any actions or proceedings brought against the Borrower by the holder hereof arising out of or relating to this Note.

IN WITNESS WHEREOF, this Third Amended and Restated Revolving Credit Note has been duly executed under seal by the undersigned on the day and in the year first above written.

PC CONNECTION, INC.

By /S/ JACK FERGUSON

Name: Jack Ferguson

Title: Executive VP, Treasurer and CFO

SCHEDULE TO THIRD AMENDED AND RESTATED REVOLVING CREDIT NOTE

DATED

AMOUNT OF LOAN

INTEREST RATE

AMOUNT PAID

NOTATION MADE BY

EXHIBIT C

See attached.

JOINDER TO AMENDED AND RESTATED GUARANTY AGREEMENT

JOINDER TO AMENDED AND RESTATED GUARANTY AGREEMENT, dated as of August 31, 2011 (the "Joinder Agreement"), by and between PROFESSIONAL COMPUTER CENTER, INC., an Illinois corporation (the "Additional Guarantor"), and RBS CITIZENS, NATIONAL ASSOCIATION, successor by merger to Citizens Bank of Massachusetts, as agent (in capacity, the "Agent") for itself and the Lenders (as defined below).

WITNESSETH:

WHEREAS, PC Connection, Inc., a Delaware corporation (the "Borrower"), is party to that certain Second Amended and Restated Credit and Security Agreement, dated as of June 29, 2005 (as amended by that certain Amendment No. 1, dated as of August 12, 2005, Amendment No. 2, dated as of January 3, 2007, Amendment No. 3, dated as of October 15, 2007 and Amendment No. 4 ("Amendment No. 4"), dated as of even date herewith, and as the same may be further amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among the Borrower, GovConnection, Inc., a Maryland limited liability company, Merrimack Services Corporation, a Delaware corporation, PC Connection Sales Corporation, a Delaware corporation, PC Connection Express, Inc., a Delaware corporation and More Direct, Inc., a Florida corporation (the immediately preceding five entities, collectively, the "Existing Guarantors"), the Agent and the lenders from time to time party thereto (the "Lenders"), pursuant to which the Lenders and the Agent have agreed to make certain loans and other extensions of credit (collectively, the "Loans") to the Borrower upon the terms and subject to the conditions set forth therein;

WHEREAS, to induce the Lenders and Agent to make the Loans, the Existing Guarantors have entered into the certain Amended and Restated Guaranty, dated as of May 31, 2002 (as amended, restated, supplemented or otherwise modified from time to time, the "Guaranty Agreement"), pursuant to which the Existing Guarantors have, inter alia, guaranteed the punctual payment and performance of all Obligations;

WHEREAS, the Additional Guarantor is a wholly-owned subsidiary of the Borrower, dependent upon the Borrower for financial and other needs, and shall benefit directly and indirectly from the Loans;

WHEREAS, it is a condition precedent to the efficacy of Amendment No. 4 that the Additional Guarantor enter into this Joinder Agreement, and guarantee the prompt payment and performance of the Obligations in accordance with the terms of the Guaranty Agreement;

NOW, THEREFORE, in order to induce the Lenders to enter into Amendment No. 4 and to make the Loans pursuant to the Credit Agreement and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Additional Guarantor and the Agent hereby agrees as follows:

1 Joinder. Effective as of the date hereof, the Additional Guarantor hereby joins in and is made a Guarantor party to the Guaranty Agreement for all purposes thereof, and guarantees the prompt payment and performance of the Obligations in accordance with the terms thereof, and shall have all of the rights and obligations of an Guarantor thereunder, as fully as if listed as a Guarantor directly therein and a direct signatory thereto.

2 Counterparts. This Joinder Agreement may be executed in any number of counterparts, and by each of the parties hereto on the same or separate counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Telecopied signatures hereto shall be of the same force and effect as an original of a manually signed copy.

3 Assignment. This Joinder Agreement is binding upon the Additional Guarantor, the Agent and their respective successors and assigns and shall inure to the benefit of the Agent and its successors and assigns. The Additional Guarantor may not assign its rights or obligations hereunder without the prior written consent of the Agent, and any such purported assignment shall be void.

4 Amendment. No provisions of this Joinder Agreement shall be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Agent and the Additional Guarantor.

5 Governing Law; Jurisdiction. This Joinder Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts applied to contracts to be performed wholly within the Commonwealth of Massachusetts. Any judicial proceeding brought by or against the Additional Guarantor with respect to this Joinder Agreement, the Documents or any Other Documents may be brought in any court of competent jurisdiction in the Commonwealth of Massachusetts, United States of America, and, by execution and delivery of this Agreement, the Additional Guarantor accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Joinder Agreement. The Additional Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to the Borrower at its address set forth in Section 15.6 of the Credit Agreement and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America. Nothing herein shall affect the right to serve process in any manner permitted by law or shall limit the right of Agent or any Lender to bring proceedings against the Additional Guarantor in the courts of any other jurisdiction. The Additional Guarantor waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. The Additional Guarantor waives the right to remove any judicial proceeding brought against the Additional Guarantor in any state court to any federal court. Any judicial proceeding by the Additional Guarantor against Agent or any Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Joinder Agreement, the Documents or any Other Documents, shall be brought only in a federal or state court located in the County of Suffolk, Commonwealth of Massachusetts.

6 Headings. The descriptive headings of the various provisions of this Joinder Agreement are inserted for convenience of reference only and shall not affect the meaning or construction of any of the provisions of this Joinder Agreement.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Additional Guarantor and the Agent have duly executed and delivered this Joinder Agreement as of the date first above written.

PROFESSIONAL COMPUTER CENTER, INC.

By /S/ Glynn W. Schulze
Name: Glynn W. Schulze
Title: Secretary

ACCEPTED BY:

RBS CITIZENS, NATIONAL ASSOCIATION,
in its capacity as Agent

By: /S/ Marc Lubelczyk, SVP
Name: Marc Lubelczyk
Title: Senior Vice President

PC CONNECTION, INC.
Route 101A (730 Milford Road)
Merrimack, NH 03054

Dated as of: October 31, 2011

RBS Citizens, National Association
28 State Street
Boston, MA 02109

Re: Amendment No. 5 to Second Amended and Restated Credit and Security Agreement and related Documents

Ladies and Gentlemen:

We refer to the Second Amended and Restated Credit and Security Agreement, dated as of June 29, 2005 (as amended by that certain Amendment No. 1, dated as of August 12, 2005, Amendment No. 2, dated as of January 3, 2007, Amendment No. 3 dated as of October 15, 2007 and Limited Waiver and Amendment No. 4 dated as of August 31, 2011, the "Credit Agreement"), by and among PC Connection, Inc., a Delaware corporation (the "Borrower"), certain subsidiary guarantors party thereto, and RBS Citizens, National Association, successor by merger to Citizens Bank of Massachusetts, as the lender (in such capacity, the "Lender") and agent (together with its successors and assigns in such capacity, the "Agent").

We have requested that the Agent and Lender agree to make certain amendments to the Credit Agreement and we have been advised that the Agent and Lender are prepared and would be pleased to make the amendments to the Credit Agreement upon the terms and subject to the conditions set forth below.

Accordingly, in consideration of the premises, promises, mutual covenants and agreements set forth below, and fully intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

AMENDMENTS TO CREDIT AGREEMENT

Effective as of the date hereof (the "Amendment Date"), and subject to the fulfillment of the conditions contained in Article II of this amendment (this "Amendment"), the Credit Agreement is hereby amended in each of the following respects:

(a) The term, "Documents" shall, wherever used in the Credit Agreement or Other Documents, be deemed to also mean and include this Amendment. All capitalized terms used but not defined herein shall have the meanings given to such terms in the Credit Agreement.

(b) The Credit Agreement is amended as follows:

Section 7.6(a) Section 7.6(a) of the Credit Agreement is amended by replacing "\$15,000,000" with "\$25,000,000".

ARTICLE II

CONDITIONS PRECEDENT TO AMENDMENT

The Lender's and Agent's agreement herein to further amend the Credit Agreement as of the Amendment Date is subject to the fulfillment, to the satisfaction of the Agent on the date hereof, of the following conditions precedent:

- (a) The Borrower and Lender shall have executed this Amendment and delivered the same to the Agent;
- (b) All representations and warranties contained herein shall be true and correct in all material respects; and
- (c) No Material Adverse Effect shall have occurred since December 31, 2010;

ARTICLE III

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lenders and Agent as follows:

(a) Representations in Agreement. Each of the representations and warranties made by the Borrower and each of its Subsidiaries to the Lender in the Credit Agreement and other Documents was true and correct in all material respects when made and is true and correct in all material respects on and as of the Amendment Date with the same full force and effect as if each of such representations and warranties had been made by the Borrower and each of its Subsidiaries on the Amendment Date and in this Amendment, except to the extent that such representations and warranties relate solely to a prior date.

(b) No Default of Events of Default. No Default or Event of Default exists on the Amendment Date.

(c) Binding Effect of Documents. This Amendment has been duly executed and delivered by the Borrower and is in full force and effect as of the date hereof, and the agreements and obligations of the Borrower contained herein constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their respective terms.

ARTICLE V

MISCELLANEOUS

This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed an original, but all of which together shall constitute one instrument. Telecopied signatures hereto shall be of the same force and effect as an original of a

manually signed copy. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto. Except to the extent specifically amended and supplemented hereby, all of the terms, conditions and the provisions of the Credit Agreement and each of the other Documents shall otherwise remain unmodified, and the Credit Agreement and each of the other Documents, as amended and supplemented by this Amendment, are confirmed as being in full force and effect.

[Remainder of Page Intentionally Left Blank]

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this Amendment, and return the counterpart to the undersigned, whereupon this Amendment, as so accepted by you, shall become a binding agreement between the undersigned, the Agent and the Lender.

Very truly yours,

PC CONNECTION, INC.

By: /S/ JACK FERGUSON

Name: Jack Ferguson

Title: Executive VP, Treasurer and CFO

PROFESSIONAL COMPUTER CENTER, INC.

By: /S/ GLYNN W. SCHULZE

Name: Glynn W. Schulze

Title: Treasurer

GOVCONNECTION, INC.

By: /S/ GARY ANDERSON

Name: Gary Anderson

Title: Treasurer

MERRIMACK SERVICES CORPORATION

By: /S/ JACK FERGUSON

Name: Jack Ferguson

Title: Executive VP, Treasurer and CFO

PC CONNECTION SALES CORPORATION

By: /S/ GARY ANDERSON

Name: Gary Anderson

Title: Treasurer

PC CONNECTION EXPRESS, INC.

By /S/ WILLIAM COOPER
Name: William Cooper
Title: President

MORE DIRECT, INC.

By /S/ GARY ANDERSON
Name: Gary Anderson
Title: Treasurer

The foregoing Amendment is hereby accepted by the undersigned as of the date hereof.

RBS CITIZENS, NATIONAL ASSOCIATION, as Agent and Lender

By: /S/ MARC LUBELCZYK
Name: Marc Lubelczyk
Title: Senior Vice President

**THIRD AMENDED AND RESTATED
CREDIT AND SECURITY AGREEMENT**

AMONG

**RBS CITIZENS, N.A.
(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.
PC CONNECTION SALES CORPORATION
MOREDIRECT, INC.
PROFESSIONAL COMPUTER CENTER, INC.
(AS GUARANTORS)**

February 24, 2012

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List of Exhibits and Schedules

Exhibits

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Exhibit 9.7	Compliance Certificate

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**THIRD AMENDED AND RESTATED
CREDIT AND SECURITY AGREEMENT**

Third Amended and Restated Credit and Security Agreement dated as of February 24, 2012 (the "Agreement" or the "Loan Agreement") 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, PC Connection Sales Corporation, a corporation organized under the laws of the State of Delaware, MoreDirect, Inc., a corporation organized under the laws of the State of Florida, Professional Computer Center, Inc., a corporation organized under the laws of the State of Illinois (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 RBS Citizens, N.A. ("Citizens" and f/k/a Citizens Bank of Massachusetts), as agent for Lenders (Citizens, in such capacity, the "Agent").

WHEREAS, the Borrower has entered into an Amended and Restated Credit and Security Agreement dated as of May 31, 2002, as amended (the "Original Loan Agreement"), with Citizens Bank of Massachusetts, as lender and agent, and the lenders party thereto, pursuant to which such lenders extended certain credit facilities to the Borrower;

WHEREAS, the Borrower has entered into a Second Amended and Restated Credit and Security Agreement dated as of June 29, 2005, as amended (the "Existing Loan Agreement"), with Citizens Bank of Massachusetts (which subsequently was merged with and into Citizens), as lender and agent, and the lenders party thereto, pursuant to which such lenders amended and restated the terms of the Original Loan Agreement and extended certain credit facilities to the Borrower;

WHEREAS, the Borrower, the Agent and the Lenders desire to further amend and restate the Existing Loan Agreement by entering into this Agreement, on the terms and conditions set forth herein;

IN CONSIDERATION of the mutual covenants and undertakings herein contained, Borrower, Guarantors, Lenders and Agent hereby agree as follows:

I. DEFINITIONS.

1.1 Accounting Terms. As used in this Agreement, the Other Documents or any certificate, report or other document made or delivered pursuant to this Agreement, accounting terms not defined in Section 1.2 or elsewhere in this Agreement and accounting terms partly defined in Section 1.2 to the extent not defined, shall have the respective meanings given to them under GAAP, as defined herein; provided, however, whenever such accounting terms are used for the purposes of determining compliance with financial covenants in this Agreement, such accounting terms shall be defined in accordance with GAAP as applied in preparation of the audited financial statements of Borrower for the fiscal year ended December 31, 2011.

1.2 General Terms. For purposes of this Agreement the following terms shall have the following meanings:

“Accounts” shall have the meaning ascribed to it in the UCC.

“Accountants” shall have the meaning set forth in Section 9.7 hereof.

“Advances” shall mean and include the Revolving Advances and Letters of Credit.

“Adjusted Eurodollar Rate” means, relative to any Eurodollar Rate Loan to be made, continued or maintained as, or converted into, a Eurodollar Rate Loan for any Interest Period, a rate per annum determined by dividing (x) the Eurodollar Rate for such Interest Period by (y) a percentage equal to one hundred percent (100%) minus the Reserve Percentage.

“Affiliate” of any Person shall mean (a) any Person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with such Person, or (b) any Person who is a director or officer (i) of such Person, (ii) of any Subsidiary of such Person or (iii) of any Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

“Agent” shall have the meaning set forth in the preamble to this Agreement and shall include its successors and assigns.

“Applicable Law” shall mean all laws, rules and regulations applicable to the Person, conduct, transaction, covenant, Other Document or contract in question, including all applicable common law and equitable principles; all provisions of all applicable state, federal and foreign constitutions, statutes, rules, regulations and orders of any Governmental Body, and all orders, judgments and decrees of all courts and arbitrators.

“Applicable Margin” shall mean, for each of the Base Rate, the Adjusted Eurodollar Rate, the LIBOR Advantage Rate and the Commitment Fee, the per annum percentage set forth below opposite the corresponding Funded Debt Ratio for the preceding fiscal quarter, as determined by the Compliance Certificate and the corresponding financial statements delivered to the Agent by the Borrower pursuant to Section 9.8 hereof:

<u>Level</u>	<u>Funded Debt Ratio</u>	<u>Applicable Base Rate Margin</u>	<u>Applicable Adjusted Eurodollar Rate Margin</u>	<u>Applicable LIBOR Advantage Rate Margin</u>	<u>Applicable Commitment Fee Margin</u>
I	greater than 1.25:1	0.00%	1.50%	1.50%	0.25%
II	less than or equal to 1.25:1 but greater than 0.50:1	0.00%	1.25%	1.25%	0.20%
III	less than or equal to 0.50:1	0.00%	1.00%	1.00%	0.150%

; provided, that if the Borrower shall fail to deliver a Compliance Certificate and the corresponding financial statements within the time required by such Section 9.8, then the Applicable Margin for each of the Base Rate, the Adjusted Eurodollar Rate, the LIBOR Advantage Rate and the Commitment Fee shall be the respective Applicable Margin set forth in Level I for the period commencing on the first calendar day of the fiscal quarter following the fiscal quarter for which such financial statements are to be delivered pursuant to Section 9.8 until such Compliance Certificate is delivered. Subject to the last clause of the immediately preceding sentence, any increase or reduction in the Applicable Margin shall be effective on the first calendar day of the month following the month in which the Agent receives the Compliance Certificate and the corresponding financial statements pursuant to Section 9.8, accompanied in the case of any reduction in the Applicable Margin by a certificate of the Borrower requesting such reduction. In the event that the Borrower's annual financial statements indicate that the Applicable Margin as applied in any fiscal quarter therein was lower than it should have been due to an error in the quarterly financial statements and/or Compliance Certificate delivered by the Borrower, then the amount of additional interest that would have been due for each such fiscal quarter if the correct Applicable Margin had been applied shall be paid by the Borrower to the Agent on demand.

"Authority" shall have the meaning set forth in Section 4.19(c).

"Base Rate" shall mean the base commercial lending rate of Citizens as publicly announced to be in effect from time to time, such rate to be adjusted automatically, without notice, on the effective date of any change in such rate. This rate of interest is determined from time to time by Citizens as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by Citizens to any particular class or category of customers of Citizens.

"Blocked Account Agreement" shall have the meaning set forth in Section 4.15(h).

"Blocked Accounts" shall have the meaning set forth in Section 4.15(h).

"Borrower" shall have the meaning set forth in the preamble to this Agreement.

"Borrower's Account" shall have the meaning set forth in Section 2.8.

"Business Day" shall mean any day other than Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in Boston, Massachusetts and, if the applicable Business Day relates to any Eurodollar Rate Loans, such day must also be a day on which transactions are carried on in the London interbank market.

“Capitalized Lease Obligation” shall mean any Indebtedness of Borrower or any of its Subsidiaries represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

“CERCLA” shall mean the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. §§9601 et seq.

“Change of Control” shall mean (a) the occurrence of any event (whether in one or more transactions) which results in a transfer by the Borrower of any ownership interest of its Subsidiaries to any Person, except as expressly permitted under this Agreement, or (b) any merger or consolidation of or with Borrower or any of its Subsidiaries or sale of all or substantially all of the property or assets of Borrower or any of its Subsidiaries, except as otherwise permitted herein.

“Charges” shall mean all taxes, charges, fees, imposts, levies or other assessments, including, without limitation, all net income, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, capital stock, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation and property taxes, custom duties, fees, assessments, liens, claims and charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts, imposed by any taxing or other authority, domestic or foreign (including, without limitation, the Pension Benefit Guaranty Corporation or any environmental agency or superfund), upon the Collateral, Borrower, any of its Subsidiaries.

“Closing Date” shall mean February 24, 2012 or such other date as may be agreed to by the parties hereto.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time and the regulations promulgated thereunder.

“Collateral” shall mean and include all of the following of the Borrower and the Guarantors:

(a) all Receivables; and

(b) all proceeds and products of any of the property described in this definition in whatever form, including, but not limited to: cash, deposit accounts (whether or not comprised solely of proceeds but excluding designated payroll accounts), certificates of deposit, insurance proceeds (including hazard, flood and credit insurance), negotiable instruments, investment property and other instruments for the payment of money; provided, however, notwithstanding the foregoing or any other provision of this Agreement or any Other Document, such grant of a security interest shall not extend to, and shall not include (x) any and all property (including any insurance proceeds thereof) of the Borrower or any of its Subsidiaries which has been financed by IBM Credit, LLC or GE Commercial Distribution Finance or against which a Lien has been granted in favor of IBM Credit, LLC or GE Commercial Distribution Finance as

security for the Indebtedness permitted under this Agreement, (y) any stock or other equity ownership interest of the Borrower or any of its Subsidiaries held or owned by the Borrower or any of its Subsidiaries, or (z) all general intangibles including, without limitation (i) trade names, product names, corporate names, service marks, trademarks, applications for any of the foregoing and related goodwill; (ii) inventions, trade secrets, patents and patent applications; (iii) copyrights and copyright applications; (iv) computer programs, software, firmware, source code, operating manuals and information relating thereto, (v) customer lists; (vi) tax refunds and insurance refunds; (vii) warranty, indemnity and insurance claims; (viii) contracts and contract rights and (ix) anything constituting general intangibles under the Uniform Commercial Code.

“Collateral Audit” shall have the meaning set forth in Section 4.10 hereto.

“Commitment Fee” shall have the meaning set forth in Section 3.3(b) hereof.

“Commitment Percentage” of any Lender shall mean the percentage set forth below such Lender’s name on the signature page hereof for all Advances as same may be adjusted upon any assignment by a Lender pursuant to Section 15.3(c) hereof.

“Commitment Transfer Supplement” shall mean a document in form and substance reasonably satisfactory to Agent and the Borrower by which the Purchasing Lender purchases and assumes a portion of the obligation of Lenders to make Advances under this Agreement.

“Compliance Certificate” shall mean the certificate represented in Section 9.7.

“Consents” shall mean all filings and all licenses, permits, consents, approvals, authorizations, qualifications and orders of governmental authorities and other third parties, domestic or foreign, necessary to carry on Borrower’s or any of its Subsidiaries’ business, including, without limitation, any Consents required under all applicable foreign, federal, state or other applicable law.

“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, (ii) taxes based on or measured by income, and (iii) non-cash extraordinary or non-recurring losses less extraordinary or non-recurring gains 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.

“Consolidated Net Income” of Borrower and its Subsidiaries for any fiscal period shall mean the net income (or loss) from operations of the Borrower and its Subsidiaries for such period, after taxes, determined in accordance with GAAP consistently applied.

“Consolidated Net Worth” at a particular date, shall mean the consolidated total assets of the Borrower and its Subsidiaries, less the consolidated total liabilities of the Borrower and its Subsidiaries.

“Contract Interest Rate” shall have the meaning set forth in Section 3.1 hereof.

“Contractual Obligations,” as applied to any Person, means any indenture, mortgage, deed of trust, contract, undertaking, agreement or other instrument to which that Person is a party or by which it or any of its properties is bound or to which it or any of its properties is subject.

“Controlled Group” shall mean all members of a group of corporations under common control of a Person with a “controlling interest” in such corporations, and all trades or businesses (whether or not incorporated) under common control which, together with Borrower, are treated as a single employer under Section 414 of the Code.

“Customer” shall mean and include the account debtor with respect to any Receivable or and/or any party who enters into any contract or other arrangement with Borrower or any of its Subsidiaries, pursuant to which Borrower or any of its Subsidiaries is to deliver any personal property or perform any services.

“Default” shall mean an event which, with the giving of notice or passage of time or both, would constitute an Event of Default.

“Default Rate” shall have the meaning set forth in Section 3.1 hereof.

“Defaulting Lender” shall have the meaning set forth in Section 2.16(a) hereof.

“Depository Accounts” shall have the meaning set forth in Section 4.15(h) hereof.

“Documents” shall mean this Agreement, the Other Documents and any other agreement, document or instrument issued pursuant to or in connection with any of the foregoing and in each case as amended, restated, supplemented or otherwise modified from time to time.

“Dollar” and the sign “\$” shall mean lawful money of the United States of America.

“Domestic Rate Loan” shall mean any Advance that bears interest based upon the Base Rate.

“Environmental Complaint” shall have the meaning set forth in Section 4.19(d) hereof.

“Environmental Laws” shall mean all federal, state and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances and codes relating to the protection of the environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production or disposal of Hazardous Substances and the rules, regulations, policies, guidelines, interpretations, decisions, orders and directives of federal, state and local governmental agencies and authorities with respect thereto.

“Equipment” shall mean all Equipment as defined in the UCC whether now owned or hereafter acquired and wherever located.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time and the rules and regulations promulgated thereunder.

“Eurodollar Rate” shall mean, relative to any Interest Period, the offered rate for deposits of U.S. Dollars in an amount approximately equal to the amount of the requested Eurodollar Rate Loan for a term coextensive with the designated Interest Period which the British Bankers’ Association fixes as its LIBOR rate as of 11:00 a.m. London time on the day which is two London Banking Days prior to the beginning of such Interest Period. If such a day is not a London Banking Day, the Eurodollar Rate shall be determined on the next preceding day which is a London Banking Day. If for any reason the Bank cannot determine such offered rate by the British Bankers’ Association, the Bank may, in its discretion, select a replacement index based on the arithmetic mean of the quotations, if any, of the interbank offered rate by first class banks in London or New York for deposits in comparable amounts and maturities.

“Eurodollar Rate Loan” shall mean an Advance at any time that bears interest based on the Adjusted Eurodollar Rate.

“Event of Default” shall have the meaning set forth in Section 10.1 hereof.

“Federal Funds Rate” shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or if such rate is not so published for any day which is a Business Day, the average of quotations for such day on such transactions received by Agent from three Federal funds brokers of recognized standing reasonably selected by Agent.

“Foreign Exchange Agreement” shall mean Agreement regarding Exchange Transactions dated August 3, 2006, as amended, restated or otherwise modified from time to time.

“Funded Debt Ratio” shall mean, with respect to any fiscal quarter, the ratio of (a) the average daily outstanding Advances over such fiscal quarter to (b) the rolling four fiscal quarter Consolidated EBITDA (including such fiscal quarter) of Borrower and its Subsidiaries.

“GAAP” shall mean accounting principles generally accepted in the United States of America, set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable statute and authority within the U.S. accounting profession) that are applicable to the circumstances as of the Closing Date.

“GE Commercial Distribution Finance” shall mean GE Commercial Distribution Finance Corporation, a subsidiary of GE Capital Corporation.

“Governmental Body” shall mean any nation or government, any state or other political subdivision thereof or any entity exercising the legislative, judicial, regulatory or administrative functions of or pertaining to a government.

“Guarantor” shall mean (i) GovConnection, Inc., (ii) PC Connection Sales Corporation., (iii) MoreDirect, Inc., (iv) Professional Computer Center, Inc. and (v) any Person who may hereafter guarantee payment or performance of the whole or any part of the Obligations and “Guarantors” means collectively all such Persons.

“Guaranty” shall mean any guaranty of the Obligations of Borrower executed by a Guarantor in favor of Agent for its benefit and for the ratable benefit of Lenders.

“Hazardous Discharge” shall have the meaning set forth in Section 4.19(d) hereof.

“Hazardous Substance” shall mean, without limitation, any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, Hazardous Wastes, hazardous or Toxic Substances or related materials as defined in CERCLA, the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), RCRA, Articles 15 and 27 of the New York State Environmental Conservation Law or any other applicable Environmental Law and in the regulations adopted pursuant thereto.

“Hazardous Wastes” shall mean all waste materials subject to regulation under CERCLA, RCRA or applicable state law, and any other applicable Federal and state laws now in force or hereafter enacted relating to hazardous waste disposal.

“Indebtedness” as applied to any Person, means: (a) all indebtedness for borrowed money; (b) that portion of obligations with respect to capital leases that is properly classified as a liability on a balance sheet in conformity with GAAP; (c) any obligation under any lease (a “synthetic lease”) treated as an operating lease under GAAP and as a loan or financing for United States income tax purposes or creditors rights purposes; (d) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money; (e) any obligation owed for all or any part of the deferred purchase price of property or services if the purchase price is due more than six (6) months from the date the obligation is incurred or is evidenced by a note or similar written instrument; (f) “earnouts” and similar payment obligations; and (g) all indebtedness secured by any Lien on any property or assets owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is non-recourse to the credit of that Person.

“Interest Expense” shall mean, as of any date of determination, (a) total interest expense (including the portion that is attributable to capitalized leases in accordance with GAAP) of Borrower and each of its Subsidiaries with respect to all outstanding Indebtedness of Borrower and each of its Subsidiaries, including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit financing and the net costs under the Interest Rate Protection Agreements, less (b) any portion thereof not payable in cash.

“Interest Period” shall mean the period provided for any Eurodollar Rate Loan pursuant to Section 2.2(b).

“Interest Rate Protection Agreement” shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement (including costless collars), interest rate hedging agreement, interest rate floor agreement or other similar agreement or arrangement.

“Inventory” shall mean Inventory as defined in the UCC and shall include all of Borrower’s or any of its Subsidiaries’ now owned or hereafter acquired goods, merchandise and other personal property, wherever located, to be furnished under any consignment arrangement, contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in Borrower’s or any of its Subsidiaries’ business or used in selling or furnishing such goods, merchandise and other personal property, and all documents of title or other documents representing them.

“Issuer” shall mean any Person who issues a Letter of Credit and/or accepts a draft pursuant to the terms hereof.

“LA Interest Payment Date” means, initially, February 29, 2012, and thereafter the day of each succeeding month which numerically corresponds to such date or, if a month does not contain a day that numerically corresponds to such date, the LA Interest Payment Date shall be the last day of such month.

“LA Interest Period” means, with respect to any LIBOR Advantage Rate Loan, the period commencing on (and including) the Closing Date (the “Start Date”) and ending on (but excluding) February 29, 2012, and thereafter, the LA Interest Period will end on the last day of each month.

“Landlord Access Properties” has the meaning set forth in Section 6.4.

“Leasehold Interests” shall mean all of Borrower’s or any of its Subsidiaries’ right, title and interest in and to any of the based premises designated by the Agent in writing to Borrower.

“Lender” and “Lenders” shall have the meaning ascribed to such term in the preamble to this Agreement and shall include each Person which becomes a transferee, successor or assign of any Lender.

“Letter of Credit Application” shall mean all documents executed in connection with a request for a Letter of Credit to be issued to Borrower under the terms and conditions hereunder.

“Letter of Credit Fees” shall have the meaning set forth in Section 3.2.

“Letter of Credit Rights” shall have the meaning ascribed to it in the UCC.

“Letters of Credit” shall mean set forth in Section 2.9.

“LIBOR Advantage Loan” shall mean a Revolving Advance for which the applicable rate of interest is based upon the LIBOR Advantage Rate.

“LIBOR Advantage Rate” means, relative to any LA Interest Period, the offered rate for delivery in two London Banking Days of deposits of U.S. Dollars for a term coextensive with the LA Interest Period which the British Bankers’ Association fixes as its LIBOR rate as of 11:00 a.m. London time on the day on which such LA Interest Period commences. If the first day of any LA Interest Period is not a day which is both a (i) Business Day, and (ii) a London Banking

Day, the LIBOR Advantage Rate shall be determined by reference to the next preceding day which is both a Business Day and a London Banking Day. If for any reason the LIBOR Advantage Rate is unavailable and/or the Agent is unable to determine the LIBOR Advantage Rate for any LA Interest Period, the Agent may, at its discretion, either: (a) select a replacement index based on the arithmetic mean of the quotations, if any, of the interbank offered rate by first class banks in London or New York for deposits with comparable maturities or (b) accrue interest at a rate per annum equal to the Domestic Rate as of the first day of any LA Interest Period for which the LIBOR Advantage Rate is unavailable or cannot be determined.

“Lien” shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, security interest, lien (whether statutory or otherwise), charge, claim or encumbrance, or preference, priority or other security agreement or preferential arrangement held or asserted in respect of any asset of any kind or nature whatsoever including, without limitation, any conditional sale or other title retention agreement, any easement, right of way or other encumbrance relating to real property, any lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction.

“Line of Business” shall mean national and international rapid-response direct marketers of information technology (IT) products, services and solutions, including brand-name products to large and small businesses, federal, state and local governments, educational institutions and consumers.

“London Banking Day” means any day on which dealings in US dollar deposits are transacted in the London interbank market.

“Material Adverse Effect” shall mean a material adverse effect on (a) the condition, operations, assets, properties, business or prospects of Borrower and its Subsidiaries, taken as a whole, or (b) Borrower’s or any of its Subsidiary’s ability to pay the Obligations in accordance with the terms thereof.

“Maximum Advance Amount” shall mean \$50,000,000.

“Mortgages” shall mean each mortgage on any Real Property securing all or a portion of the Obligations together with all extensions, renewals, amendments, supplements, modifications, substitutions and replacements thereto and thereof.

“Multiemployer Plan” shall mean a “multiemployer plan” as defined in Sections 3(37) and 4001(a)(3) of ERISA.

“Note” shall mean the Revolving Credit Note.

“Obligations” shall mean and include any and all loans, advances (including overdrafts and Interest Rate Protection Agreements) debts, liabilities, obligations (including, without limitation, reimbursement obligations on any drawn Letters of Credit), any liability or indebtedness owed to any Lender by Borrower under a Foreign Exchange Agreement, covenants and duties owing by Borrower or any of its Subsidiaries to Lenders or Agent or to any other direct or indirect subsidiary or affiliate of Agent or any Lender of any kind or nature, present or

future (including, without limitation, any interest accruing thereon after maturity, or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding relating to Borrower or any of its Subsidiaries, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), whether or not evidenced by any note, guaranty or other instrument, arising under, related to, or in any way connected to or incurred in connection with this Agreement, the Other Documents and any and all other agreements, instruments or documents pertaining to cash management and corporate credit card and merchant account services to the extent not otherwise covered hereby (and any amendments, extensions, modifications, renewals and refinances of any of the foregoing), whether or not for the payment of money, whether arising by reason of an extension of credit, opening of a letter of credit, loan, equipment lease or guarantee, under any interest or currency swap, future, option or other similar agreement, or in any other manner, whether arising out of overdrafts or deposit or other accounts or electronic funds transfers (whether through automated clearing houses or otherwise) or out of the Agent's or any Lenders non-receipt of or inability to collect funds or otherwise not being made whole in connection with depository transfer check or other similar arrangements, whether direct or indirect (including those acquired by assignment or participation), absolute or contingent, joint or several, due or to become due, now existing or hereafter arising, contractual or tortious, liquidated or unliquidated. Without limiting the foregoing, the term "Obligations" shall mean any and all costs and expenses of Agent and any Lender incurred in the documentation, negotiation, modification, enforcement, collection or otherwise in connection with any of the foregoing documents, including but not limited to reasonable attorneys' fees and expenses and all obligations of Borrower or any of its Subsidiaries to Agent or Lenders to perform acts or refrain from taking any action. 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 GE Commercial Distribution Finance or any of its affiliates in connection with any inventory or equipment financing.

"Other Documents" shall mean the Note, the Questionnaire, any Guaranty, each Letter of Credit and Letter of Credit Application, any Foreign Exchange Agreement, Blocked Account Agreements, landlord waivers, warehouseman's waivers, and any and all other agreements, instruments and documents, including, without limitation, guaranties, pledges, powers of attorney, consents, interest or currency swap agreements or other similar agreements and all other writings heretofore, now or hereafter executed by Borrower or any Guarantor and/or delivered to Agent or any Lender in respect of the transactions contemplated by this Agreement.

"Participant" shall mean each Person who shall be granted the right by any Lender to participate in any of the Advances and who shall have entered into a participation agreement in form and substance satisfactory to such Lender.

"Payment Office" shall mean initially 28 State Street, 13th Floor, Boston, Massachusetts 02109, thereafter, such other office of Agent, if any, which it may designate by notice to Borrower and to each Lender to be the Payment Office.

"PBGC" shall mean the Pension Benefit Guaranty Corporation.

“Permitted Acquisitions” shall mean the acquisition by Borrower of all or a substantial portion of the assets or all of the capital stock of any Person (the “Acquired Entity”) engaged in a business substantially similar to the Line of Business, which acquisition satisfies all of the following criteria: (a) the aggregate consideration paid or payable by Borrower in connection with such acquisition (including earn out payments, seller paper or deferred purchase price payments) shall not exceed \$25,000,000; (b) Borrower causes any new Subsidiary acquired or formed in connection with such Permitted Acquisition to comply with all of the provisions of Section 6.10; (c) acquired assets representing at least seventy five percent (75%) of the fair market value of all assets acquired in such acquisition are located in the United States of America and any entity acquired is a domestic entity; and (d) no Default or Event of Default shall have occurred or result from such Acquisition (to be demonstrated through delivery by the Borrower to Agent of a pro forma Compliance Certificate satisfactory to the Agent in accordance with Section 9.6 if the aggregate consideration paid or payable by Borrower in connection with such acquisition (including earn out payments, seller paper or deferred purchase price payments) exceeds \$10,000,000).

“Permitted Encumbrances” shall mean (a) Liens in favor of Agent for the benefit of Agent and the other Lenders; (b) Liens for taxes, assessments or other governmental charges either not delinquent or being contested in good faith and by appropriate proceedings and with respect to which proper reserves have been taken by Borrower or the applicable Subsidiary; (c) deposits or pledges to secure obligations under worker’s compensation, social security or similar laws, or under unemployment insurance; (d) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the ordinary course of Borrower’s or any of its Subsidiaries’ business; (e) judgment Liens that have been stayed or bonded and discharged within sixty (60) days and mechanics’, workers’, materialman’s or other like Liens arising in the ordinary course of Borrower’s or any of its Subsidiaries’ business with respect to obligations which are not due or which are being contested in good faith by Borrower or the applicable Subsidiary and with respect to which proper reserves have been taken by Borrower or the applicable Subsidiary; (f) Liens placed upon fixed assets and proceeds thereof hereafter acquired to secure a portion of the purchase price or financing thereof, provided that (x) any such lien shall not encumber any other property of Borrower or any of its Subsidiaries and proceeds thereof; (g) Liens disclosed on Schedule 1.3; (h) Liens arising from the refinancing of capitalized leases or purchase money security interests within the limitations of Section 7.8(d); (i) Liens securing Permitted Vendor Debt; and (j) Liens arising by operation of law to secure landlords, lessors or renters under leases or rental agreements made in the ordinary course of business and confined to the premises or property rented.

“Permitted Subordinated Indebtedness” shall mean unsecured Indebtedness of the Borrower or any of its Subsidiaries in a principal amount not to exceed \$50,000,000, in the aggregate, and on terms and conditions acceptable to the Agent (including terms of subordination) incurred (i) in connection with Permitted Acquisitions or (ii) as set forth on Schedule 1.4 hereto.

“Permitted Vendor Debt” shall mean Indebtedness of the Borrower to IBM Credit, LLC and GE Commercial Distribution Finance in an amount not to exceed \$50,000,000 and on terms and conditions reasonably acceptable to the Agent (which shall include existing terms) and refinancing thereof.

“Person” shall mean any individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated organization, association, limited liability company, institution, public benefit corporation, joint venture, entity or government (whether foreign, federal, state, county, city, municipal or otherwise, including any instrumentality, division, agency, body or department thereof).

“Plan” shall mean any employee benefit plan within the meaning of Section 3(3) of ERISA, maintained for employees of Borrower or any of its Subsidiaries or any member of the Controlled Group or any such Plan to which Borrower or any of its Subsidiaries or any member of the Controlled Group is required to contribute on behalf of any of its employees.

“Purchasing Lender” shall have the meaning set forth in Section 15.3(c) hereof.

“Questionnaire” shall mean the Documentation Information Questionnaire and the responses thereto provided by Borrower and each of its Subsidiaries and delivered to Agent.

“RCRA” shall mean the Resource Conservation and Recovery Act, 42 U.S.C. §§ 6901 et seq., as same may be amended from time to time.

“Real Property” shall mean all of Borrower’s and any of its Subsidiaries’ right, title and interest in and to the owned and leased premises identified on Schedule 4.19 hereto.

“Receivables” shall mean, with respect to the Borrower or any of its Subsidiaries, whether now existing or hereafter created, all rights to payment for goods sold or leased or for services rendered, all sums of money or other proceeds due or to become due thereon, all guaranties and security therefor, and all right, title and interests of the Borrower or any of its Subsidiaries in the goods or services giving rise thereto and the rights pertaining to such goods, including the rights of reclamation and stoppage in transit, and all related insurance. Without limiting the foregoing, the term “Receivables” shall include all Accounts received by or owing to the Borrower or any of its Subsidiaries, whether now existing or hereafter arising.

“Release” shall mean any spill, emission, leaking, pumping, pouring, injection, escaping, disposal, discharge, dumping, emptying or leaching of any material into the environment (including the abandonment or discarding of any barrels, containers or other closed receptacles containing any such material).

“Reportable Event” shall mean a reportable event described in Section 4043(b) of ERISA or the regulations promulgated thereunder.

“Required Lenders” shall mean any Lenders holding more than sixty-six and two-thirds percent (66 2/3%) of the Advances and unused commitment and, if no Advances are outstanding, shall mean Lenders holding sixty-six and two-thirds percent (66 2/3%) of the Commitment Percentages; provided, however, if there are only two Lenders, the Required Lenders shall mean Lenders holding one hundred percent (100%) of the Advances and, if no Advances are outstanding, shall mean Lenders holding one hundred percent (100%) of the Commitment.

“Reserve Percentage” shall mean, relative to any day of any Interest Period, the maximum effective percentage in effect on any day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) or any other governmental authority having jurisdiction with respect thereto as issued from time to time and then applicable for determining the reserve requirements (including, without limitation, basic, supplemental, marginal and emergency reserve requirements) and taking into account any transitional adjustments or other scheduled changes in reserve requirements with respect to eurocurrency funding having a term approximately equal or comparable to the relevant Interest Period.

“Revolving Advances” shall mean Advances other than Letters of Credit.

“Revolving Credit Note” shall mean, collectively, the promissory notes referred to in Section 2.1(a) hereof.

“Section 20 Subsidiary” shall mean the Subsidiary of the bank holding company controlling Citizens, which Subsidiary has been granted authority by the Federal Reserve Board to underwrite and deal in certain Ineligible Securities.

“Secured Interest Rate Protection Agreement” shall mean any Interest Rate Protection Agreement entered into by Borrower with a counter party that is a Lender (or an affiliate thereof).

“Senior Debt Payments” shall mean and include all cash actually expended by Borrower to make (a) interest payments on any Advances hereunder, plus (b) payments for all fees, commissions and charges set forth herein to the Lenders, plus (c) scheduled capitalized lease payments or payments of purchase money indebtedness permitted under Section 7.8 hereof, plus (d) scheduled payments with respect to any other Indebtedness for borrowed money that, by its terms or by the terms of a subordinated agreement, is not subordinate to the Obligations.

“Settlement Date” shall mean the Closing Date and thereafter Wednesday or Thursday of each week or more frequently if Agent deems appropriate unless such day is not a Business Day in which case it shall be the next succeeding Business Day.

“Subordinated Debt Documentation” shall mean any agreements, documents or instruments executed in connection with any Indebtedness permitted hereunder that is expressly subordinated to the Obligations, including, but not limited to, Permitted Subordinated Indebtedness.

“Subsidiary” shall mean a corporation or other entity of whose shares of stock or other ownership interests having ordinary voting power (other than stock or other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

“Subsidiary Stock” shall mean all of the capital stock of any Subsidiary of the Borrower that is owned by the Borrower or any Subsidiary.

“Supporting Obligations” shall have the meaning ascribed to it in the UCC.

“Term” shall have the meaning set forth in Section 13.1 hereof.

“Termination Event” shall mean (a) a Reportable Event with respect to any Plan or Multiemployer Plan; (b) the withdrawal of Borrower or any of its Subsidiaries or any member of the Controlled Group from a Plan or Multiemployer Plan during a plan year in which such entity was a “substantial employer” as defined in Section 4001(a)(2) of ERISA; (c) the providing of notice of intent to terminate a Plan in a distress termination described in Section 4041(c) of ERISA; (d) the institution by the PBGC of proceedings to terminate a Plan or Multiemployer Plan; (e) any event or condition (i) which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan or Multiemployer Plan, or (ii) that may result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA; or (f) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of Borrower or any of its Subsidiaries or any member of the Controlled Group from a Multiemployer Plan.

“Total Liabilities” at a particular date, shall mean all amounts which would, in conformity with GAAP, be included under total liabilities on a balance sheet of Borrower and its Subsidiaries, as at such date, but in any event, including, without limitation, the amounts of (a) all Indebtedness of Borrower and its Subsidiaries, (b) all reserves in respect of liabilities or Indebtedness and (c) all accruals for federal or other taxes measured by income payable.

“Toxic Substance” shall mean and include any material present on the Real Property or the Leasehold Interests which has been shown to have significant adverse effect on human health or which is subject to regulation under the Toxic Substances Control Act (TSCA), 15 U.S.C. §§ 2601 et seq., applicable state law, or any other applicable Federal or state laws now in force or hereafter enacted relating to toxic substances. “Toxic Substance” includes but is not limited to asbestos, polychlorinated biphenyls (PCBs) and lead-based paints.

“Transferee” shall have the meaning set forth in Section 15.3(b) hereof.

“Type” means a LIBOR Rate Loan, a Domestic Rate Loan or a LIBOR Advantage Loan, as the case may be.

“UCC” shall have the meaning set forth in Section 1.3 hereof.

“Week” shall mean the time period commencing with the opening of business on a Wednesday and ending on the end of business the following Tuesday.

1.3 Uniform Commercial Code Terms. All terms used herein and defined in the Uniform Commercial Code as adopted in the Commonwealth of Massachusetts from time to time shall have the meaning given therein unless otherwise defined herein (the “UCC”). To the extent the definition of any category or type of collateral is expanded by any amendment, modification or revision to the Uniform Commercial Code, such expanded definition will apply automatically as of the date of such amendment, modification or revision.

1.4 Certain Matters of Construction. The terms “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. Wherever appropriate in the context, terms used herein in the singular also include the plural and vice versa. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations. Unless otherwise provided, all references to any instruments or agreements to which Agent is a party, including, without limitation, references to any of the Other Documents, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof.

II. ADVANCES, PAYMENTS.

2.1 Revolving Advances.

Subject to the terms and conditions set forth in this Agreement, each Lender, severally and not jointly, will make Revolving Advances to Borrower in aggregate amounts outstanding at any time equal to such Lender’s Commitment Percentage of the Maximum Advance Amount less the aggregate amount of outstanding Letters of Credit. The Revolving Advances shall be evidenced by one or more secured promissory notes (collectively, the “Revolving Credit Note”) substantially in the form attached hereto as Exhibit 2.1(a).

2.2 Procedure for Revolving Advances Borrowing: Eurodollar Advances.

(a) Each request for a Revolving Advance shall, unless Borrower requests a loan of another Type, be deemed to be a request for a LIBOR Advantage Loan (or, after all outstanding Revolving Advances have been converted into Domestic Rate Loans pursuant to Section 2.2(d) or 2.2(e), a Domestic Rate Loan) which shall not require advance notice and shall not be subject to any minimum amount requirement. Should any amount required to be paid as interest hereunder, or as fees or other charges under this Agreement or any other agreement with Agent or Lenders, or with respect to any other Obligation, become due, same shall be deemed a request for a Revolving Advance as of the date such payment is due, in the amount required to pay in full such interest, fee, charge or Obligation under this Agreement or any other agreement with Agent or Lenders, and such request shall be irrevocable. Notwithstanding anything to the contrary in this Section 2.2(a) or otherwise in this Agreement, Borrower may not request, and no Lender shall be obligated to provide, a Domestic Rate Loan unless a LIBOR Advantage Loan is not available pursuant to Section 2.2(h), Section 2.2(i) or otherwise.

(b) Notwithstanding the provisions of subsection (a) above, with respect to all Revolving Advances, in the event Borrower desires to obtain a Eurodollar Rate Loan, Borrower must notify Agent prior to 10:00 a.m. (Boston time) at least two (2) Business Days’ prior to the date of the proposed borrowing specifying (i) the date of the proposed borrowing (which shall be a Business Day), (ii) the type of borrowing and the amount on the date of such Advance to be borrowed, which amount, in the case of a Eurodollar Rate Loan, shall be a minimum of \$100,000 and an integral multiple of \$100,000, and (iii) the duration of the first Interest Period therefor. Interest Periods for Eurodollar Rate Loans shall be for one, two, three, four or six months; provided, if an Interest Period would end on a day that is not a Business Day, it shall end on the next succeeding Business Day unless such day falls in the next succeeding calendar month in which case the Interest Period shall end on the next preceding Business Day. No Eurodollar Rate Loan or LIBOR Advantage Loan shall be made available to Borrower during the continuance of a Default or an Event of Default.

(c) Each Interest Period of a Eurodollar Rate Loan shall commence on the date such Eurodollar Rate Loan is made and shall end on such date as Borrower may elect as set forth in subsection (b)(iii) above provided that the exact length of each Interest Period shall be determined in accordance with the practice of the interbank market for offshore Dollar deposits and no Interest Period shall end after the last day of the Term. Borrower shall elect the initial Interest Period applicable to a Eurodollar Rate Loan by its notice of borrowing given to Agent pursuant to Section 2.2(b) or by its notice of conversion given to Agent pursuant to Section 2.2(d), as the case may be. Borrower shall elect the duration of each succeeding Interest Period by giving irrevocable written notice to Agent of such duration not less than three (3) Business Days prior to the last day of the then current Interest Period applicable to such Eurodollar Rate Loan. If Agent does not receive timely notice of the Interest Period elected by Borrower, Borrower shall be deemed to have elected to convert to a LIBOR Advantage Loan subject to Section 2.2(d) herein below.

(d) Borrower may, subject to the notice requirements set forth below, on any Business Day convert any Revolving Advance of one Type into a Revolving Advance of another Type in the same aggregate principal amount, provided, that no Revolving Advance may be converted into a Domestic Rate Loan except (i) pursuant to Section 2.2(e) or (ii) if a LIBOR Advantage Loan is not available pursuant to Section 2.2(h), Section 2.2(i) or otherwise; provided, further, that no Revolving Advance may be converted into a LIBOR Advantage Loan or Eurodollar Rate Loan if any Default or Event of Default shall have occurred and be continuing, and provided, further, that no Eurodollar Rate Loan may be converted into a Loan of another Type or of a different Interest Period except on the last day of the Interest Period applicable thereto. If Borrower desires to convert a Revolving Advance, Borrower shall give prior written notice to agent by 10:00 a.m. (Boston time) not less than two (2) nor more than five (5) Business Days' prior to the date of conversion, which notice shall specify the proposed date of such conversion (which in the case of Eurodollar Rate Loans shall be on the last day of the Interest Period applicable thereto), the Revolving Advance and amount to be converted (which, in the case of conversions to Eurodollar Rate Loans or LIBOR Advantage Loans shall be in an aggregate minimum amount of \$100,000 and integral multiples of \$100,000), and, in the case of conversions to Eurodollar Rate Loans, the Interest Period applicable thereto. After giving effect to any borrowing or each such conversion, there shall not be outstanding more than four (4) Eurodollar Rate Loans, in the aggregate.

(e) If any Default or Event of Default shall have occurred and be continuing, at the option of the Required Lenders, each Eurodollar Rate Loan and LIBOR Advantage Loan shall be deemed to convert to a Domestic Rate Loan on the last day of the Interest Period or LA Interest Period, as applicable, in effect with respect thereto.

(f) Borrower may prepay Domestic Rate Loans and LIBOR Advantage Loans in whole at any time or in part from time to time with accrued interest on the principal being prepaid to the date of such repayment. Upon not less than two (2) Business Days' prior written notice, Borrower may (subject to Sections 3.1 and 13.1 hereof) prepay Eurodollar Rate Loans in whole at any time or in part from time to time with accrued interest on the principal being

prepaid to the date of such repayment. Borrower shall specify the date of prepayment of Advances which are Eurodollar Rate Loans and the amount of such prepayment. In the event that any prepayment of a Eurodollar Rate Loan is required or permitted on a date other than the last Business Day of the then current Interest Period with respect thereto, Borrower shall indemnify Agent and Lenders therefor in accordance with Section 2.2(g) hereof.

(g) Borrower shall indemnify Agent and Lenders and hold Agent and Lenders harmless from and against any and all losses or expenses that Agent and Lenders may sustain or incur as a consequence of any prepayment, conversion of or any default, whether voluntary or involuntary by Borrower in the payment of the principal of or interest on any Eurodollar Rate Loan or failure by Borrower to complete a borrowing of, a prepayment of or conversion of or to a Eurodollar Rate Loan after notice thereof has been given, including, but not limited to, any interest payable by Agent or the Lenders to other lenders of funds obtained by them in order to make or maintain their Eurodollar Rate Loans hereunder. A certificate or statement as to any additional amounts payable pursuant to the foregoing sentence (which shall include upon the written request of the Borrower a reasonably detailed calculation and description) submitted by Agent or any Lender to Borrower shall be conclusive absent manifest error.

(h) Notwithstanding any other provision hereof, if any applicable law, treaty, regulation or directive, or any change therein or in the interpretation or application thereof, shall make it unlawful for any Lender (for purposes of this subsection (h), the term "Lender" shall include any Lender and the office or branch where Lender or any corporation or bank controlling such Lender makes or maintains Eurodollar Rate Loans or LIBOR Advantage Rate Loans) to make or maintain its Eurodollar Rate Loans or LIBOR Advantage Rate Loans, the obligation of Lenders to make Eurodollar Rate Loans or LIBOR Advantage Rate Loans hereunder shall automatically be cancelled and Borrower shall, if any affected Eurodollar Rate Loans or LIBOR Advantage Rate Loans are then outstanding, promptly upon request from Agent, either pay all such affected Eurodollar Rate Loans or LIBOR Advantage Rate Loans in full or convert such affected Eurodollar Rate Loans or LIBOR Advantage Rate Loans into loans of another Type. If any such payment or conversion of any Eurodollar Rate Loan or LIBOR Advantage Rate Loan is made on a day that is not the last day of the Interest Period applicable to such Eurodollar Rate Loan or LIBOR Advantage Rate Loan, Borrower shall pay Agent, upon Agent's request, such amount or amounts as may be necessary to compensate Lenders for any loss or expense sustained or incurred by Lenders in respect of such Eurodollar Rate Loan or LIBOR Advantage Rate Loan as a result of such payment or conversion, including (but not limited to) any interest or other amounts payable by Agent or the Lenders to other lenders of funds obtained by Lenders in order to make or maintain such Eurodollar Rate Loan or LIBOR Advantage Rate Loan. A certificate or statement as to any additional amounts payable pursuant to the foregoing sentence (which shall include upon the written request of the Borrower a reasonably detailed calculation and description) submitted by Lenders to Borrower shall be conclusive absent manifest error.

(i) In the event that Borrower shall have requested a Eurodollar Rate Loan or a LIBOR Advantage Rate Loan in accordance with this Section 2.2 and any Lender, in its sole discretion, shall have determined that U.S. dollar deposits in the relevant amount and for the relevant Interest Period or LA Interest Period, as applicable, are not available to such Lender in the London interbank market; or by reason of circumstances affecting such Lender in the London interbank market, adequate and reasonable means do not exist for ascertaining the Adjusted

Eurodollar Rate or LIBOR Advantage Rate applicable to the relevant Interest Period or LA Interest Period, as applicable; or the Adjusted Eurodollar Rate or LIBOR Advantage Rate no longer adequately and fairly reflects such Lender's cost of funding the loans; upon notice from such Lender to Borrower, the obligations of such Lender under this Agreement to make or continue any loans as, or to convert any loans into, Eurodollar Rate Loans or LIBOR Advantage Rate Loans of such duration shall forthwith be suspended until such Lender shall notify Borrower that the circumstances causing such suspension no longer exist.

2.3 Disbursement of Advance Proceeds. All Advances shall be disbursed from whichever office or other place Agent may designate from time to time and, together with any and all other Obligations of Borrower to Agent or Lenders, shall be charged to Borrower's Account on Agent's books. During the Term, Borrower may use the Revolving Advances by borrowing, prepaying and reborrowing, all in accordance with the terms and conditions hereof. The proceeds of each Revolving Advance requested by Borrower or deemed to have been requested by Borrower under Section 2.2(a) hereof shall, with respect to requested Revolving Advances to the extent Lenders make such Revolving Advances, be made available to Borrower by 3:00 p.m. (Eastern Time) on the day so requested by way of credit to Borrower's operating account at Agent, or such other bank as Borrower may designate following notification to Agent, in immediately available federal funds or other immediately available funds or, with respect to Revolving Advances deemed to have been requested by Borrower, be disbursed to Agent to be applied to the outstanding Obligations giving rise to such deemed request.

2.4 [Reserved]

2.5 Maximum Advances. The aggregate balance of Revolving Advances outstanding at any time shall not exceed the Maximum Advance Amount less the aggregate amount of drawings outstanding and additional amounts available under Letters of Credit.

2.6 Repayment of Advances.

(a) The Revolving Advances shall be due and payable in full on the last day of the Term subject to acceleration on the occurrence of an Event of Default under this Agreement, any prior termination or earlier prepayment as herein provided.

(b) Borrower recognizes that the amounts evidenced by checks, notes, drafts or any other items of payment relating to and/or proceeds of Collateral may not be collectible by Agent on the date received. In consideration of Agent's agreement to conditionally credit Borrower's Account as of the Business Day on which Agent receives those items of payment, Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by Agent on account of the Obligations as they are collected, consistent with past practices. Agent is not, however, required to credit Borrower's Account for the amount of any item of payment which is unsatisfactory to Agent and Agent may charge Borrower's Account for the amount of any item of payment which is returned to Agent unpaid.

(c) All payments of principal, interest and other amounts payable hereunder, or under any of the Other Documents shall be made to Agent at the Payment Office not later than 1:00 p.m. (Boston time) on the due date therefor in lawful money of the United States of America in federal funds or other funds immediately available to Agent. Agent shall have the right to effectuate payment on any and all Obligations due and owing hereunder by charging Borrower's Account or by making Advances as provided in Section 2.2 hereof.

(d) Borrower shall pay principal, interest, and all other amounts payable hereunder, or under any related agreement, without any deduction whatsoever, including, but not limited to, any deduction for any setoff or counterclaim.

2.7 Repayment of Excess Advances. The aggregate balance of Revolving Advances outstanding at any time in excess of the Maximum Advance Amount less the aggregate amount of drawings outstanding and additional amounts available under Letters of Credit shall be immediately due and payable without the necessity of any demand at the Payment Office, whether or not a Default or Event of Default has occurred.

2.8 Statement of Account. Agent shall maintain, in accordance with its customary procedures, a loan account ("Borrower's Account") in the name of Borrower in which shall be recorded the date and amount of each Advance made by Agent and the date and amount of each payment in respect thereof; provided, however, the failure by Agent to record the date and amount of any Advance shall not adversely affect Agent or any Lender. Each month, Agent shall send to Borrower a statement showing the accounting for the Advances made, payments made or credited in respect thereof, and other transactions between Agent and Borrower, during such month. The monthly statements shall be deemed correct and binding upon Borrower in the absence of manifest error and shall constitute an account stated between Lenders and Borrower unless Agent receives a written statement of Borrower's specific exceptions thereto within sixty (60) days after such statement is received by Borrower. The records of Agent with respect to the loan amount shall be conclusive evidence absent manifest error of the amounts of Advances and other charges thereto and of payments applicable thereto.

2.9 Letters of Credit. Subject to the terms and conditions hereof, Agent shall issue or cause the issuance of letters of credit (each a "Letter of Credit" and collectively "Letters of Credit") on behalf of Borrower; provided, however, that Agent will not be required to issue or cause to be issued any Letters of Credit to the extent that the face amount of such Letters of Credit would then cause the sum of (a) the outstanding Revolving Advances plus (b) the aggregate amount of drawing outstanding and additional amounts available under Letters of Credit outstanding to exceed the Maximum Advance Amount. The maximum undrawn amount of outstanding Letters of Credit shall not exceed \$10,000,000 in the aggregate at any time. All disbursements or payments related to Letters of Credit shall be deemed to be Domestic Rate Loans consisting of Revolving Advances and shall bear interest at the Contract Interest Rate for Domestic Rate Loans. Letters of Credit that have not been drawn upon shall not bear interest.

2.10 Issuance of Letters of Credit.

(a) Borrower may request Agent to issue or cause the issuance of a Letter of Credit by delivering to Agent at the Payment Office, Agent's form of Letter of Credit Application (the "Letter of Credit Application") completed to the satisfaction of Agent; and, such other certificates, documents and other papers and information as Agent may reasonably request. Borrower also has the right to give instructions and make agreements with respect to any application, any applicable letter of credit and security agreement, any applicable letter of credit reimbursement agreement and/or any other applicable agreement, any letter of credit and the disposition of documents, disposition of any unutilized funds, and to agree with Agent upon any amendment, extension or renewal of any Letter of Credit.

(b) Each Letter of Credit shall, among other things, (i) provide for the payment of sight drafts or acceptances of usance drafts when presented for honor thereunder in accordance with the terms thereof and when accompanied by the documents described therein and (ii) have an expiry date not later than one year after such Letter of Credit's date of issuance and in no event later than the last day of the Term. Each Letter of Credit shall be subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, and any amendments or revision thereof adhered to by the Issuer and, to the extent not inconsistent therewith, the laws of the Commonwealth of Massachusetts.

(c) Agent shall use its reasonable efforts to notify Lenders of the request by Borrower for a Letter of Credit hereunder.

(d) Agent shall have absolute discretion whether to accept any draft related to any Letter of Credit. Without in any way limiting Agent's absolute discretion whether to accept any draft, Borrower will not present for acceptance any draft, and Agent will generally not accept any drafts (i) that arise out of transactions involving the sale of goods by Borrower not in the ordinary course of its business, (ii) that involve a sale to an Affiliate of Borrower, (iii) that involve any purchase for which Agent has not received all related documents, instruments and forms requested by Agent, (iv) for which Agent is unable to locate a purchaser in the ordinary course of business on customary terms, or (v) that is not eligible for discounting with Federal Reserve Banks pursuant to paragraph 7 of Section 13 of the Federal Reserve Act, as amended.

2.11 Requirements For Issuance of Letters of Credit.

(a) In connection with the issuance of any Letter of Credit, Borrower shall indemnify, save and hold Agent, each Lender and each Issuer harmless from any loss, cost, expense or liability, including, without limitation, payments made by Agent, any Lender or any Issuer and reasonable expenses and reasonable attorneys' fees incurred by Agent, any Lender or Issuer arising out of, or in connection with, any Letter of Credit to be issued or created for Borrower. Borrower shall be bound by Agent's or any Issuer's regulations and good faith interpretations of any Letter of Credit issued or created for Borrower's Account, although this

interpretation may be different from its own; and, neither Agent, nor any Lender, nor any Issuer nor any of their correspondents shall be liable for any error, negligence, or mistakes, whether of omission or commission, in following Borrower's instructions or those contained in any Letter of Credit, or of any modifications, amendments or supplements thereto or in issuing or paying any Letter of Credit or except for Agent's, any Lender's, any Issuer's or such correspondents' gross negligence or willful misconduct.

(b) Borrower shall authorize and direct any Issuer to name Borrower as the "Applicant" or "Account Party" of each Letter of Credit. If Agent is not the Issuer of any Letter of Credit, Borrower shall authorize and direct the Issuer to deliver to Agent all instruments, documents, and other writings and property received by the Issuer pursuant to the Letter of Credit and to accept and rely upon Agent's instructions and agreements with respect to all matters arising in connection with the Letter of Credit, or the application therefor.

(c) Solely, in connection with all Letters of Credit issued or caused to be issued by Agent under this Agreement, Borrower hereby appoints Agent, or its designee, as its attorney, with full power and authority (i) to sign and/or endorse Borrower's name upon any warehouse or other receipts, letter of credit applications and acceptances; (ii) to sign Borrower's name on bills of lading; (iii) to clear inventory through the United States of America Customs Department ("Customs") in the name of Borrower or Agent or Agent's designee, and to sign and deliver to Customs officials powers of attorney in the name of Borrower for such purpose; and (iv) to complete in Borrower's name or Agent's, or in the name of Agent's designee, any order, sale or transaction, obtain the necessary documents in connection therewith, and collect the proceeds thereof. Neither Agent nor its attorneys will be liable for any acts or omissions nor for any error of judgment or mistakes of fact or law, except for Agent's or its attorney's gross negligence or willful misconduct. This power, being coupled with an interest, is irrevocable as long as any Letters of Credit remain outstanding.

(d) Each Lender shall, to the extent of the percentage amount equal to the product of such Lender's Commitment Percentage for Advances multiplied by the aggregate amount of all unreimbursed reimbursement obligations arising from disbursements made or obligations incurred with respect to the Letters of Credit be deemed to have irrevocably purchased an undivided participation in each such unreimbursed reimbursement obligation. In the event that at the time a disbursement is made the unpaid balance of Revolving Advances exceeds or would exceed, with the making of such disbursement, the Maximum Advance Amount, and such disbursement is not reimbursed by Borrower within two (2) Business Days, Agent shall promptly notify each Lender and upon Agent's demand each Lender shall pay to Agent such Lender's proportionate share of such unreimbursed disbursement together with such Lender's proportionate share of Agent's unreimbursed costs and expenses relating to such unreimbursed disbursement. Upon receipt by Agent of a repayment from Borrower of any amount disbursed by Agent for which Agent had already been reimbursed by Lenders, Agent shall deliver to each Lender that Lender's pro rata share of such repayment. Each Lender's participation commitment shall continue until the last to occur of any of the following events: (A) Agent ceases to be obligated to issue or cause to be issued Letters of Credit hereunder; (B) no Letter of Credit issued hereunder remains outstanding and uncanceled or (C) all Persons (other than Borrower) have been fully reimbursed for all payments made under or relating to Letters of Credit.

2.12 *Additional Payments.* Any reasonable sums expended by Agent or any Lender due to Borrower's failure to perform or comply with its obligations under this Agreement or any Other Document including, without limitation, Borrower's obligations under Sections 4.2, 4.4, 4.12, 4.13, 4.14 and 6.1 hereof, may be charged to Borrower's Account as a Revolving Advance and added to the Obligations.

2.13 *Manner of Borrowing and Payment.*

(a) Each borrowing of Revolving Advances shall be advanced according to the applicable Commitment Percentages of Lenders for Revolving Advances. Subject to the terms and conditions herein, Borrower may request daily Revolving Advances.

(b) Each payment (including each prepayment) by Borrower on account of the principal of and interest on the Revolving Advances, shall be applied to the Revolving Advances pro rata according to the applicable Commitment Percentages of Lenders for Revolving Advances. Except as expressly provided herein, all payments (including prepayments) to be made by Borrower on account of principal, interest and fees shall be made without set off or counterclaim and shall be made to Agent on behalf of the Lenders to the Payment Office, in each case on or prior to 1:00 p.m., Boston time, in Dollars and in immediately available funds.

(c) [Reserved].

Notwithstanding anything to the contrary contained in Sections 2.13(a) and (b) hereof, commencing with the first Business Day following the Closing Date, each borrowing of Revolving Advances shall be advanced by Agent and each payment by Borrower on account of Revolving Advances shall be applied first to those Revolving Advances advanced by Agent. On or before 1:00 p.m., Boston time, on each Settlement Date commencing with the first Settlement Date following the Closing Date, Agent and Lenders shall make certain payments as follows: (A) if the aggregate amount of new Revolving Advances made by Agent during the preceding Week (if any) exceeds the aggregate amount of repayments applied to outstanding Revolving Advances during such preceding Week, then each Lender shall provide Agent with funds in an amount equal to its applicable Commitment Percentage for Revolving Advances multiplied by the difference between (w) such Revolving Advances and (x) such repayments and (B) if the aggregate amount of repayments applied to outstanding Revolving Advances during such Week exceeds the aggregate amount of new Revolving Advances made during such Week, then Agent shall provide each Lender with funds in an amount equal to its applicable Commitment Percentage multiplied by the difference between (y) such repayments and (z) such Revolving Advances.

(i) Each Lender shall be entitled to earn interest at the applicable Contract Interest Rate on outstanding Advances which it has funded.

(ii) Promptly following each Settlement Date, Agent shall submit to each Lender a certificate with respect to payments received and Advances made during the Week immediately preceding such Settlement Date. Such certificate of Agent shall be conclusive in the absence of manifest error.

(d) If any Lender or Participant (a “Benefited Lender”) shall at any time receive any payment of all or part of its Advances, or interest thereon, or receive any Collateral in respect thereof (whether voluntarily or involuntarily or by set-off) in a greater proportion than any such payment to and Collateral received by any other Lender, if any, in respect of such other Lender’s Advances, or interest thereon, and such greater proportionate payment or receipt of Collateral is not expressly permitted hereunder, such Benefited Lender shall purchase for cash from the other Lenders a participation in such portion of each such other Lender’s Advances, or shall provide such other Lender with the benefits of any such Collateral, or the proceeds thereof, as shall be necessary to cause such Benefited Lender to share the excess payment or benefits of such Collateral or proceeds ratably with each of the other Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. Each Lender so purchasing a portion of another Lender’s Advances may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(e) Unless Agent shall have been notified by telephone, confirmed in writing, by any Lender that such Lender will not make the amount which would constitute its applicable Commitment Percentage of the Advances available to Agent, Agent may (but shall not be obligated to) assume that such Lender shall make such amount available to Agent on the next Settlement Date and, in reliance upon such assumption, make available to Borrower a corresponding amount. Agent will promptly notify Borrower of its receipt of any such notice from a Lender. If such amount is made available to Agent on a date after such next Settlement Date, such Lender shall pay to Agent on demand an amount equal to the product of (i) the daily average Federal Funds Rate (computed on the basis of a year of 360 days) during such period as quoted by Agent, times (ii) such amount, times (iii) the number of days from and including such Settlement Date to the date on which such amount becomes immediately available to Agent. A certificate of Agent submitted to any Lender with respect to any amounts owing under this paragraph (e) shall be conclusive, in the absence of manifest error. If such amount is not in fact made available to Agent by such Lender within three (3) Business Days after such Settlement Date, Agent shall be entitled to recover such an amount, with interest thereon at the rate per annum then applicable to such Revolving Advances hereunder, on demand from Borrower; provided, however, that Agent’s right to such recovery shall not prejudice or otherwise adversely affect Borrower’s rights (if any) against such Lender.

2.14 *[Reserved]*

2.15 *Use of Proceeds.* Borrower shall apply the proceeds of Advances to (a) refinance existing senior indebtedness, (b) pay fees and expenses related to this transaction, (c) to provide for the Borrower’s ongoing short-term working capital and other general corporate needs and (d) to fund Permitted Acquisitions.

2.16 Defaulting Lender.

(a) Notwithstanding anything to the contrary contained herein, in the event any Lender (x) fails or refuses (which failure or refusal constitutes a breach by such Lender of its obligations under this Agreement) to make available its portion of any Advance or (y) notifies either Agent or Borrower that it does not intend to make available its portion of any Advance (if the actual refusal would constitute a breach by such Lender of its obligations under this Agreement) (each, a "Lender Default"), all rights and obligations hereunder of such Lender (a "Defaulting Lender") as to which a Lender Default is in effect and of the other parties hereto shall be modified to the extent of the express provisions of this Section 2.16 while such Lender Default remains in effect.

(b) Advances shall be incurred pro rata from Lenders (the "Non-Defaulting Lenders") which are not Defaulting Lenders based on their respective Commitment Percentages, and no Commitment Percentage of any Lender or any pro rata share of any Advances required to be advanced by any Lender shall be increased as a result of such Lender Default. Amounts received in respect of principal of any type of Advances shall be applied to reduce the applicable Advances of each Lender pro rata based on the aggregate of the outstanding Advances of that type of all Lenders at the time of such application; provided, that, such amount shall not be applied to any Advances of a Defaulting Lender at any time when, and to the extent that, the aggregate amount of Advances of any Non-Defaulting Lender exceeds such Non-Defaulting Lender's Commitment Percentage of all Advances then outstanding.

(c) A Defaulting Lender shall not be entitled to give instructions to Agent or to approve, disapprove, consent to or vote on any matters relating to this Agreement and the Other Documents. All amendments, waivers and other modifications of this Agreement and the Other Documents may be made without regard to a Defaulting Lender and, for purposes of the definition of "Required Lenders", a Defaulting Lender shall be deemed not to be a Lender and not to have Advances outstanding.

(d) Other than as expressly set forth in this Section 2.16, the rights and obligations of a Defaulting Lender (including the obligation to indemnify Agent) and the other parties hereto shall remain unchanged. Nothing in this Section 2.16 shall be deemed to release any Defaulting Lender from its obligations under this Agreement and the Other Documents, shall alter such obligations, shall operate as a waiver of any default by such Defaulting Lender hereunder, or shall prejudice any rights which Borrower, Agent or any Lender may have against any Defaulting Lender as a result of any default by such Defaulting Lender hereunder.

(e) In the event a Defaulting Lender retroactively cures to the satisfaction of Agent the breach which caused a Lender to become a Defaulting Lender, such Defaulting Lender shall no longer be a Defaulting Lender and shall be treated as a Lender under this Agreement.

2.17 Increase of Commitments. At any time during the Term, the Borrower shall have the right, but not the obligation, upon no less than ninety (90) days written notice to the Agent, to increase the Maximum Advance Amount by an aggregate amount not to exceed \$30,000,000 under terms and conditions identical to those of the Revolving Advances, such additional amounts to be provided by the then existing Lenders or such other persons who become Lenders

in connection therewith; provided that no such existing Lender shall be obligated to provide any such Advance in connection with the increase in the Maximum Advance Amount, and this section shall not be deemed a commitment by any Lender to increase such Maximum Advance Amount.

III. INTEREST AND FEES.

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

3.2 Letter of Credit Fees.

(a) Borrower shall pay (i) to Agent, for the benefit of Lenders, fees for each Letter of Credit for the period from and excluding the date of issuance of same to and including the date of expiration or termination, equal to the average daily face amount of each outstanding Letter of Credit multiplied by the Applicable Margin for the Adjusted Eurodollar Rate per annum, such fee to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable quarterly in arrears on the first day of each quarter and on the last day of the Term, (ii) to the Agent, a facing fee equal to the average daily face amount of each outstanding Letter of Credit multiplying one quarter percent (0.25%), such fee to be calculated on the basis of a 360-day year for the actual number of days elapsed and to be payable quarterly in arrears on the first day of each quarter and on the last day of the Term and (iii) all fees and expenses as agreed upon by the Issuer and Borrower in connection with any Letter of Credit,

including, without limitation, in connection with the opening, amendment or renewal of any such Letter of Credit and any acceptances created thereunder and shall reimburse Agent for any and all fees and expenses, if any, paid by Agent to the Issuer (all of the foregoing fees, the "Letter of Credit Fees"). All such charges shall be deemed earned in full on the date when the same are due and payable hereunder and shall not be subject to rebate or proration upon the termination of this Agreement for any reason. Any such charge in effect at the time of a particular transaction shall be the charge for that transaction, notwithstanding any subsequent change in the Issuer's prevailing charges for that type of transaction.

(b) During the continuance of Event of Default, upon demand by Agent, Borrower will cause cash to be deposited and maintained in an account with Agent, as cash collateral, in an amount equal to one hundred and five percent (105%) of the undrawn amount of the outstanding Letters of Credit, and Borrower hereby irrevocably authorizes Agent, in its discretion, on Borrower's behalf and in Borrower's name, to open such an account and to make and maintain deposits therein, or in an account opened by Borrower, in the amounts required to be made by Borrower, out of the proceeds of Receivables or other Collateral or out of any other funds of Borrower coming into any Lender's possession at any time. Agent will invest such cash collateral (less applicable reserves) in such short-term money-market items as to which Agent and Borrower mutually agree and the net return on such investments shall be credited to such account and constitute additional cash collateral. Borrower may not withdraw amounts credited to any such account except upon payment and performance in full of all Obligations and termination of this Agreement.

3.3 Fees.

(a) **Facility Fee.** Upon the execution of this Agreement, Borrower shall pay to Agent for the ratable benefit of Lenders a facility fee of \$50,000. Upon payment, such fee shall be deemed to be fully earned and shall not be refundable.

(b) **Commitment Fee.** For any quarter during the Term where the average daily unpaid balance of the Advances outstanding for each day of the quarter does not equal the Maximum Advance Amount, then Borrower shall pay to Agent for the ratable benefit of Lenders a fee at a rate per annum equal to the Applicable Margin with respect to the Commitment Fee (as set forth in the chart in the definition of "Applicable Margin") on the amount by which the Maximum Advance Amount exceeds such average daily unpaid balance during such quarter. Such fee (the "Commitment Fee") shall be payable to Agent in arrears on the first Business Day of each quarter with respect to the previous calendar quarter.

3.4 [Reserved]

3.5 [Reserved]

3.6 *Computation of Interest and Fees.* Interest on Domestic Rate Loans shall be computed on the basis of a year of 365/366 days and for the actual number of days elapsed. Interest on Eurodollar Rate Loans shall be computed on the basis of a year of 360 days and for the actual number of days elapsed, including the first date of the applicable period to, but not including, the date of repayment. Interest on Libor Advantage Loans shall be calculated for the actual number of days elapsed on the basis of a 360-day year, including the first date of the applicable period to, but not including, the date of repayment. If any payment to be made hereunder becomes due and payable on a day other than a Business Day, the due date thereof shall be extended to the next succeeding Business Day and interest thereon shall be payable at the applicable Contract Interest Rate during such extension.

3.7 *Maximum Charges.* In no event whatsoever shall interest and other charges charged hereunder exceed the highest rate permissible under law. In the event interest and other charges as computed hereunder would otherwise exceed the highest rate permitted under law, such interest or other charges shall be deemed to be decreased to such highest rate as is permitted under the law and the excess amount paid by Borrower, if any, shall be first applied to any unpaid principal balance owed by Borrower, and if the then remaining excess amount is greater than the previously unpaid principal balance, Lenders shall promptly refund such excess amount to Borrower and the provisions hereof shall be deemed amended to provide for such permissible rate.

3.8 *Increased Costs.* In the event that any applicable law, treaty or governmental regulation, or any change therein or in the interpretation or application thereof, or compliance by any Lender (for purposes of this Section 3.8, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) with any request or directive (whether or not having the force of law) from any central bank or other financial, monetary or other authority, shall:

(a) subject Agent or any Lender to any tax of any kind whatsoever with respect to this Agreement or any Other Document or change the basis of taxation of payments to Agent or any Lender of principal, fees, interest or any other amount payable hereunder or under any Other Documents (except for changes in the rate of tax on the overall net income of Agent or any Lender by the jurisdiction in which it maintains its principal office);

(b) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by, any office of Agent or any Lender, including (without limitation) pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(c) impose on Agent or any Lender or the London interbank Eurodollar market any other condition with respect to this Agreement or any Other Document;

and the result of any of the foregoing is to increase the cost to Agent or any Lender of making, renewing or maintaining its Advances hereunder by an amount that Agent or such Lender deems to be material or to reduce the amount of any payment (whether of principal, interest or

otherwise) in respect of any of the Advances by an amount that Agent or such Lender deems to be material, then, in any case Borrower shall promptly pay Agent or such Lender, upon its demand, such additional amount as will compensate Agent or such Lender for such additional cost or such reduction, as the case may be. Agent or such Lender shall certify the amount of such additional cost or reduced amount to Borrower, and such certification shall be conclusive absent manifest error.

3.9 Basis For Determining Interest Rate Inadequate or Unfair. In the event that Agent or any Lender shall have determined that:

(a) reasonable means do not exist for ascertaining the Adjusted Eurodollar Rate applicable pursuant to Section 2.2 hereof for any Interest Period;
or

(b) Dollar deposits in the relevant amount and for the relevant maturity are not available in the London interbank Eurodollar market, with respect to an outstanding Eurodollar Rate Loan, a proposed Eurodollar Rate Loan, or a proposed conversion of a Domestic Rate Loan or LIBOR Advantage Loan into a Eurodollar Rate Loan, then Agent shall give Borrower prompt written, telephonic or telegraphic notice of such determination. If such notice is given, (i) any such requested Eurodollar Rate Loan shall be made as a Domestic Rate Loan, unless Borrower shall notify Agent no later than 10:00 a.m. (Boston time) two (2) Business Days prior to the date of such proposed borrowing, that its request for such borrowing shall be cancelled or made as an unaffected Eurodollar Rate Loan or LIBOR Advantage Loan, (ii) any Domestic Rate Loan, LIBOR Advantage Loan or Eurodollar Rate Loan which was to have been converted to an affected type of Eurodollar Rate Loan shall be continued as or converted into a Domestic Rate Loan, or, if Borrower shall notify Agent, no later than 10:00 a.m. (Boston time) two (2) Business Days prior to the proposed conversion, shall be maintained as an unaffected type of Eurodollar Rate Loan or converted to a LIBOR Advantage Loan, and (iii) any outstanding affected Eurodollar Rate Loans shall be converted into a Domestic Rate Loan, or, if Borrower shall notify Agent, no later than 10:00 a.m. (Boston time) two (2) Business Days prior to the last Business Day of the then current Interest Period applicable to such affected Eurodollar Rate Loan, shall be converted into an unaffected type of Eurodollar Rate Loan or LIBOR Advantage Loan, on the last Business Day of the then current Interest Period for such affected Eurodollar Rate Loans. Until such notice has been withdrawn, Lenders shall have no obligation to make an affected type of Eurodollar Rate Loan or maintain outstanding affected Eurodollar Rate Loans and Borrower shall not have the right to convert a Domestic Rate Loan, LIBOR Advantage Loan or an unaffected type of Eurodollar Rate Loan into an affected type of Eurodollar Rate Loan.

3.10 Capital Adequacy.

(a) In the event that Agent or any Lender shall have determined that any change in the applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Agent or any Lender (for purposes of this Section 3.10, the term "Lender" shall include Agent or any Lender and any corporation or bank controlling Agent or any Lender) and the office or branch where Agent or any Lender (as so defined) makes or

maintains any Eurodollar Rate Loans with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on Agent or any Lender's capital as a consequence of its obligations hereunder to a level below that which Agent or such Lender could have achieved but for such adoption, change or compliance (taking into consideration Agent's and each Lender's policies with respect to capital adequacy) by an amount deemed by Agent or any Lender to be material, then, from time to time, Borrower shall pay upon demand to Agent or such Lender such additional amount or amounts as will compensate Agent or such Lender for such reduction. In determining such amount or amounts, Agent or such Lender may use any reasonable averaging or attribution methods. The protection of this Section 3.10 shall be available to Agent and each Lender regardless of any possible contention of invalidity or inapplicability with respect to the applicable law, regulation or condition.

(b) A certificate of Agent or such Lender setting forth such amount or amounts as shall be necessary to compensate Agent or such Lender with respect to Section 3.10(a) hereof when delivered to Borrower shall be conclusive absent manifest error.

3.11 Gross Up for Taxes. If Borrower shall be required by Applicable Law to withhold or deduct any taxes from or in respect of any sum payable under this Agreement or any of the Other Documents, (a) the sum payable to Agent or such Lender shall be increased as may be necessary so that, after making all required withholding or deductions, Agent or such Lender (as the case may be) receives an amount equal to the sum it would have received had no such withholding or deductions been made, (b) Borrower shall make such withholding or deductions, and (c) Borrower shall pay the full amount withheld or deducted to the relevant taxation authority or other authority in accordance with Applicable Law.

3.12 Withholding Tax Exemption. At least five (5) Business Days prior to the first date on which interest or fees are payable hereunder for the account of any Lender, each Lender that is not incorporated under the laws of the United States or any state thereof agrees that it will deliver to Borrower and Agent two (2) duly completed copies of United States Internal Revenue Service Form 1001 or 4224, certifying in either case that such Lender is entitled to receive payment under this Agreement and the Note without deduction or withholding of any United States federal income taxes. Each Lender which so delivers a Form 1001 or 4224 further undertakes to deliver to Borrower and Agent two (2) additional copies of such form (or a successor form) on or before the date that such form expires (currently, three (3) successive calendar years for Form 1001 and one calendar year for Form 4224) or becomes obsolete or after the occurrence of any event requiring a change in the most recent form so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by Borrower or Agent, in each case, certifying that such Lender is entitled to receive payments under this Agreement and its Note without deduction or withholding of any United States federal income taxes, unless an event (including any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required that renders all such forms inapplicable or that would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender advises Borrower and Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income taxes.

IV. COLLATERAL: GENERAL TERMS

4.1 *Security Interest in the Collateral.* To secure the prompt payment and performance to Agent and each Lender of the Obligations, Borrower and each Guarantor hereby grant to Agent for its benefit and for the ratable benefit of each Lender a continuing security interest in and to all of its Collateral, whether now owned or existing or hereafter acquired or arising and wheresoever located. Borrower and each Guarantor shall mark its books and records as may be necessary or appropriate to evidence, protect and perfect Agent's security interest and shall cause its financial statements to reflect such security interest.

4.2 *Perfection of Security Interest.* Borrower and each Guarantor shall take all action that may be necessary or desirable, or that Agent may reasonably request, so as at all times to maintain the validity, perfection, enforceability and priority of Agent's security interest in the Collateral or to enable Agent to protect, exercise or enforce its rights hereunder and in the Collateral, including, but not limited to, (a) immediately discharging all Liens other than Permitted Encumbrances, (b) obtaining landlords' lien waivers (as reasonably requested by Agent), (c) delivering to Agent, endorsed or accompanied by such instruments of assignment as Agent may specify, and stamping or marking, in such manner as Agent may reasonably request, any and all chattel paper, instruments, letters of credits and advices thereof and documents evidencing or forming a part of the Collateral, (d) entering into lockbox and other custodial arrangements reasonably satisfactory to Agent (to the extent necessary), and (e) executing and delivering financing statements, control agreements, notices and assignments, in each case in form and substance reasonably satisfactory to Agent, relating to the creation, validity, perfection, maintenance or continuation of Agent's security interest in the Collateral under the Uniform Commercial Code or other applicable law. Agent is hereby authorized to file financing statements in accordance with the Uniform Commercial Code as adopted in the Commonwealth of Massachusetts from time to time to the extent consistent herewith. By their signatures hereto, Borrower and each Guarantor hereby authorizes Agent to file against Borrower or such Guarantor, one or more financing continuation or amendment statements pursuant to the Uniform Commercial Code in form and substance satisfactory to Agent (which statements may have a description of collateral which is broader than that set forth herein) to the extent consistent herewith. All reasonable charges, expenses and fees Agent may incur in doing any of the foregoing, and any local taxes relating thereto, shall be charged to Borrower's Account as a Revolving Advance of a Domestic Rate Loan and added to the Obligations, or, at Agent's option, shall be paid to Agent for its benefit and for the ratable benefit of Lenders immediately upon demand.

4.3 Disposition of Collateral. Borrower and each Guarantor will safeguard and protect all Collateral for Agent's general account and make no disposition thereof whether by sale, lease or otherwise except as provided for under Section 7.1(b) hereof.

4.4 Preservation of Collateral. Borrower and each Guarantor shall cooperate fully with all of Agent's efforts to preserve the Collateral and will take such actions to preserve the Collateral as Agent may direct. Agent's reasonable expenses of preserving the Collateral shall be charged to Borrower's Account as a Revolving Advance and added to the Obligations.

4.5 Ownership of Collateral. With respect to the Collateral, at the time the Collateral becomes subject to Agent's security interest: (a) Borrower and each Guarantor (as applicable) shall be the sole owner of and fully authorized and able to sell, transfer, pledge and/or grant a first priority security interest in each and every item of the its respective Collateral to Agent (other than purchase money security interests permitted hereunder and statutory liens); and, except for Permitted Encumbrances the Collateral shall be free and clear of all Liens and encumbrances whatsoever; (b) each document and agreement executed by Borrower or delivered to Agent or any Lender in connection with this Agreement shall be true and correct in all respects; and (c) all signatures and endorsements of Borrower and each Guarantor that appear on such documents and agreements shall be genuine and Borrower and each Guarantor shall have full capacity to execute same.

4.6 Defense of Agent's and Lenders' Interests. Until (a) payment and performance in full of all of the Obligations and (b) termination of this Agreement, Agent's interests in the Collateral shall continue in full force and effect. Except as otherwise permitted herein, during such period Borrower or any Guarantor shall not, without Agent's prior written consent, pledge, sell (except sales permitted under 7.1(b)), assign, transfer, create or suffer to exist a Lien upon or encumber or allow or suffer to be encumbered in any way except for Permitted Encumbrances, any part of the Collateral. Borrower and each Guarantor shall defend Agent's interests in the Collateral against any and all Persons whatsoever. At any time following demand by Agent for payment of all Obligations but subject to the limitations of Section 11.1 hereof, including, without limitation, providing ten (10) days prior written notice to the Borrower, Agent shall have the right to take possession of the indicia of the Collateral and the Collateral in whatever physical form contained, including without limitation: books, records, labels, stationery, documents, instruments. If Agent exercises this right to take possession of the Collateral, Borrower and each Guarantor shall, upon demand, assemble it in the best manner possible and make it available to Agent at a place reasonably convenient to Agent. In addition, with respect to all Collateral, Agent and Lenders shall be entitled to all of the rights and remedies set forth herein and further provided by the Uniform Commercial Code or other applicable law. Upon the occurrence of an Event of Default, Borrower and each Guarantor shall, and Agent may, at its option, instruct all suppliers, carriers, forwarders, warehousemen or others receiving or holding cash, checks, documents or instruments in which Agent holds a security interest to deliver same to Agent and/or subject to Agent's order and if they shall come into Borrower's or any of its Subsidiaries' possession, they, and each of them, shall be held by Borrower or its

Subsidiary, as applicable, in trust as Agent's trustee, and Borrower or its Subsidiary, as applicable, will immediately deliver them to Agent in their original form together with any necessary endorsement.

4.7 Books and Records. Borrower and each Guarantor shall (a) keep proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to its business and affairs; (b) set up on its books accruals with respect to all taxes, assessments, charges, levies and claims; and (c) on a reasonably current basis set up on its books, from its earnings, allowances against doubtful Receivables, advances and investments and all other proper accruals (including without limitation by reason of enumeration, accruals for premiums, if any, due on required payments and accruals for depreciation, obsolescence, or amortization of properties), which should be set aside from such earnings in connection with its business. All determinations pursuant to this subsection shall be made in accordance with, or as required by, GAAP consistently applied in the opinion of such independent public accountant as shall then be regularly engaged by Borrower and its Subsidiaries and meet the standards for such accountants required under Section 9.7 hereof.

4.8 Financial Disclosure. Borrower and each of its Subsidiaries hereby irrevocably authorizes and directs all accountants and auditors employed by Borrower or any of its Subsidiaries at any time during the Term to exhibit and deliver to Agent and each Lender copies of any of Borrower's or its Subsidiaries' financial statements.

4.9 Compliance with Laws. Borrower and each of its Subsidiaries shall (a) comply in all material respects with (i) all acts, rules, regulations and orders of any legislative, administrative or judicial body or official applicable to the Collateral or any part thereof or to the operation of Borrower's or its Subsidiaries' business and (ii) all obligations, covenants and conditions contained in all material Contractual Obligations and (b) maintain or obtain all licenses, qualifications and permits now held or hereafter required to be held by such Person, unless the non-compliance or absence with which could not reasonably be expected to have a Material Adverse Effect. Borrower and each of its Subsidiaries may, however, contest or dispute any acts, rules, regulations, orders and directions of those bodies or officials in good faith and in any reasonable manner, provided that any related Lien is inchoate or stayed and sufficient reserves are established to the reasonable satisfaction of Agent to protect Agent's Lien on or security interest in the Collateral. The assets of Borrower and each of its Subsidiaries at all times shall be maintained in accordance with the requirements of all insurance carriers which provide insurance with respect to the assets of Borrower and its Subsidiaries so that such insurance shall remain in full force and effect.

4.10 Inspection of Premises. At reasonable times and at reasonable intervals Agent shall have access to and the right to audit, check, inspect and make abstracts and copies from Borrower's and its Subsidiaries' books,

records, audits, correspondence and all other papers relating to the Collateral and the operation of Borrower's or its Subsidiaries' business (each a "Collateral Audit"). Agent and its agents may upon prior written notice enter upon any of Borrower's and its Subsidiaries' premises at any time during business hours and at any other reasonable time, and from time to time, for the purpose of inspecting the Collateral and any and all records pertaining thereto and the operation of Borrower's or its Subsidiaries' business. All reasonable costs and expenses of inspections permitted under this Section 4.10 shall be borne by Borrower.

4.11 Insurance. Schedule 4.11 hereto describes all of the casualty and property insurance policies, held by the Borrower and each of its Subsidiaries, including the amounts of such policies. Borrower shall bear the full risk of any loss of any nature whatsoever with respect to the Collateral. At Borrower's own cost and expense in amounts and with carriers reasonably acceptable to Agent. Borrower and each of its Subsidiaries shall (a) keep all its insurable properties and properties in which Borrower or any of its Subsidiaries has an interest insured against the hazards of fire, flood, sprinkler leakage, those hazards covered by extended coverage insurance and such other hazards, and for such amounts, as is customary in the case of companies engaged in businesses similar to Borrower's or any of its Subsidiaries including, without limitation, business interruption insurance; (b) maintain a bond in such amounts as is customary in the case of companies engaged in businesses similar to Borrower or its Subsidiaries insuring against larceny, embezzlement or other criminal misappropriation of insured's officers and employees who may either singly or jointly with others at any time have access to the assets or funds of Borrower or any of its Subsidiaries either directly or through authority to draw upon such funds or to direct generally the disposition of such assets; (c) maintain public and product liability insurance against claims for personal injury, death or property damage suffered by others; (d) maintain all such worker's compensation or similar insurance as may be required under the laws of any state or jurisdiction in which Borrower or its Subsidiaries are engaged in business; and (e) furnish Agent upon request with (i) evidence of the maintenance of such policies by the renewal thereof at least five (5) days before any expiration date and (ii) appropriate loss payable endorsements in form and substance reasonably satisfactory to Agent, naming Agent as a co-insured and additional loss payee (with respect to the Collateral only) as its interests may appear with respect to all insurance coverage referred to in clauses (a), and (c) above, and providing (A) that all proceeds (subject to below) thereunder constituting Collateral shall be payable to Agent, (B) no such insurance shall be affected by any act or neglect of the insured or owner of the property described in such policy, and (C) that such policy and loss payable clauses may not be cancelled, amended or terminated unless at least thirty (30) days' prior written notice is given to Agent. In the event of any loss thereunder of \$1,000,000 or less of Collateral, or any loss with respect to any non-Collateral, in the aggregate, the carriers named therein hereby are directed by Agent to make payment for such loss to Borrower or any of its Subsidiaries and not to the Agent. In the event of any loss thereunder in excess of \$1,000,000 of Collateral in the aggregate, the carriers named therein hereby are directed by Borrower and its Subsidiaries to make payment for such loss to Agent and not to Borrower or any of its Subsidiaries and Agent jointly. If any insurance losses are paid by check, draft or other instrument payable to Borrower and Agent jointly, Agent may endorse Borrower's or its Subsidiaries' name thereon and do such other things as Agent may deem advisable to reduce the same to cash (in each case, consistent with the foregoing); if any insurance losses not relating to Collateral are paid by check, draft of other instrument

payable to Borrower and Agent jointly, Borrower may endorse Agent's name thereon and do such other things as Borrower may deem advisable to reduce the same to cash, provided Borrower provides notice to Agent of any such action. During the continuance of an Event of Default, Agent is hereby authorized to adjust and compromise claims under insurance coverage referred to in clauses (a), and (b) above, in each case to the extent they are proceeds of Collateral. All loss recoveries in excess of \$1,000,000 in the aggregate received by Agent upon any such insurance may be applied to the extent they are proceeds of Collateral to the Obligations, (x) first to outstanding fees, expenses and interest owing to the Agent and Lenders and (y) second to the outstanding Advances in such order as Agent may determine, subject to Borrower's ability to reborrow Revolving Advances in accordance with the terms hereof. Any surplus shall be paid by Agent to Borrower or applied as may be otherwise required by law. Any deficiency thereon shall be paid by Borrower to Agent, on demand.

4.12 *Failure to Pay Insurance.* If Borrower or any of its Subsidiaries fails to obtain insurance as hereinabove provided, or to keep the same in force, Agent, if Agent so elects, may obtain such insurance and pay the premium therefor on behalf of Borrower or any of its Subsidiaries, and charge Borrower's Account therefor as a Revolving Advance of a Domestic Rate Loan (subject to Section 3.1 hereof) and such reasonable expenses so paid shall be part of the Obligations.

4.13 *Payment of Taxes.* Borrower and each of its Subsidiaries will pay, when due, all material taxes, assessments and other Charges lawfully levied or assessed upon Borrower or any of its Subsidiaries or any of the Collateral including, without limitation, real and personal property taxes, assessments and charges and all franchise, income, employment, social security benefits, withholding, and sales taxes unless being contested in good faith and for which proper reserves have been established. If any tax by any governmental authority is or may be imposed on or as a result of any transaction between Borrower or any of its Subsidiaries and Agent or any Lender which Agent or any Lender may be required to withhold or pay or if any taxes, assessments, or other Charges remain unpaid after the date fixed for their payment, or if any claim shall be made which, in Agent's or any Lender's opinion, may reasonably be expected to create a valid Lien on the Collateral, Agent may without notice to Borrower or any of its Subsidiaries pay such taxes, assessments or other Charges and Borrower and each of its Subsidiaries hereby indemnify and hold Agent and each Lender harmless in respect thereof. The amount of any payment by Agent under this Section 4.13 shall be charged to Borrower's Account as a Revolving Advance and added to the Obligations and, until Borrower shall furnish Agent with an indemnity therefor (or supply Agent with evidence satisfactory to Agent that due provision for the payment thereof has been made), Agent may hold without interest any balance standing to Borrower's credit and Agent shall retain its security interest in any and all Collateral held by Agent.

4.14 *Payment of Leasehold Obligations.* Borrower and each of its Subsidiaries shall at all times pay, when and as due, its rental obligations under all leases for the Landlord Access Properties, and shall otherwise comply, in all material respects, with all other terms of such leases and keep them in full force and effect, in each case, unless contested in good faith and reasonable reserves are established and, at Agent's request will provide evidence of having done so.

4.15 Receivables.

(a) [Reserved].

(b) [Reserved].

(c) Location of Borrower. Borrower's chief executive office is located at 730 Milford Road, Merrimack, New Hampshire 03054 and all of Borrower's books and records pertaining to its receivable are maintained at such executive office or other permitted locations. Until written notice is given to Agent by Borrower of any other office at which Borrower keeps its records pertaining to Receivables, all such records shall be kept at such executive office or other permitted locations.

(d) Collection of Receivables. Until Borrower's or its Guarantors' authority to do so is terminated by Agent (which notice Agent may give at any time following the occurrence of an Event of Default or a Default or when Agent in its sole discretion deems it to be in Lenders' best interest to do so), Borrower and each Guarantor will, at Borrower's and its Guarantors' sole cost and expense, collect all amounts received on Receivables subject to permitted adjustments and usual terms and conditions, and shall not commingle such collections with Borrower's funds or use the same except to pay Obligations. Borrower and each Guarantor shall deposit in the Blocked Account or, upon request by Agent, deliver to Agent, in original form and on the date of receipt thereof, all checks, drafts, notes, money orders, acceptances, cash and other evidences of Indebtedness.

(e) Notification of Assignment of Receivables. Upon the occurrence of an Event of Default, Agent shall have the right to send notice of the assignment of, and Agent's security interest in, the Receivables to any and all Customers or any third party holding or otherwise concerned with any of the Collateral. Thereafter, Agent shall have the sole right to collect the Receivables, take possession of the Collateral, or both. Agent's actual collection expenses, including, but not limited to, stationery and postage, telephone and telegraph, secretarial and clerical expenses and the salaries of any collection personnel used for collection, may be charged to Borrower's Account and added to the Obligations.

(f) Power of Agent to Act on Borrower's Behalf. Agent shall have the right to receive, endorse, assign and/or deliver in the name of Agent or Borrower or any of its Subsidiaries any and all checks, drafts and other instruments for the payment of money relating to the Receivables, and Borrower and each of its Subsidiaries hereby waives notice of presentment, protest and non-payment of any instrument so endorsed. Upon an Event of Default except with respect to the following subparagraph (iii) (which power the Agent may exercise at any time), Borrower and each of Guarantor hereby constitute Agent or Agent's designee as Borrower's and each of its Guarantor's attorney with power (i) to endorse Borrower's and each Guarantor's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral; (ii) to sign Borrower's and each Guarantor's name on any invoice or bill of lading relating to any of the Receivables, drafts against Customers, assignments and

verifications of Receivables; (iii) to send verifications of Receivables to any Customer; (iv) to sign Borrower's and each of Guarantor's name on all financing statements or any other documents or instruments deemed necessary or appropriate by Agent to preserve, protect, or perfect Agent's interest in the Collateral and to file same; (v) to demand payment of the Receivables; (vi) to enforce payment of the Receivables by legal proceedings or otherwise; (vii) to exercise all of Borrower's and each Guarantor's rights and remedies with respect to the collection of the Receivables and any other Collateral; (viii) to settle, adjust, compromise, extend or renew the Receivables; (ix) to settle, adjust or compromise any legal proceedings brought to collect Receivables; (x) to prepare, file and sign Borrower's and each Guarantor's name on a proof of claim in bankruptcy or similar document against any Customer with respect to the collection of the Collateral; (xi) to prepare, file and sign Borrower's and each Guarantor's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables; and (xii) to do all other acts and things necessary to carry out this Agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission nor for any error of judgment or mistake of fact or of law, unless done maliciously or with gross (not mere) negligence; this power being coupled with an interest is irrevocable while any of the Obligations remain unpaid. Agent shall have the right at any time to change the address for delivery of mail addressed to Borrower or any of its Subsidiaries to such address as Agent may designate and to receive, open and dispose of all mail addressed to Borrower or any of its Subsidiaries.

(g) No Liability. Neither Agent nor any Lender shall, under any circumstances or in any event whatsoever, have any liability for any error or omission or delay of any kind occurring in the settlement, collection or payment of any of the Receivables or any instrument received in payment thereof, or for any damage resulting therefrom. Agent may, without notice or consent from Borrower or any of its Subsidiaries, sue upon or otherwise collect, extend the time of payment of, compromise or settle for cash, credit or upon any terms any of the Receivables or any other securities, instruments or insurance applicable thereto and/or release any obligor thereof. Agent is authorized and empowered to accept the return of the goods represented by any of the Receivables, without notice to or consent by Borrower or any of its Subsidiaries, all without discharging or in any way affecting Borrower's or any of its Subsidiaries' liability hereunder.

(h) Establishment of a Lockbox Account, Dominion Account. All proceeds of Collateral shall be deposited by Borrower and each Guarantor into a lockbox account, dominion account or such other "blocked account" ("Blocked Accounts") as Agent may require pursuant to an agreement ("Blocked Account Agreement") with such bank as may be selected by Borrower and each Guarantor and be acceptable to Agent. Borrower and each Guarantor shall issue to any such bank, an irrevocable letter of instruction directing said bank to transfer such funds so deposited to Agent, either to any account maintained by Agent at said bank or by wire transfer to appropriate account(s) of Agent. All funds deposited in such Blocked Accounts shall immediately become the property of Agent and Borrower and each Guarantor shall obtain the agreement by such bank to waive any offset rights against the funds so deposited. Neither Agent nor any Lender assumes any responsibility for such blocked account arrangement, including without limitation, any claim of accord and satisfaction or release with respect to deposits accepted by any bank thereunder. Alternatively, Agent may establish depository accounts ("Depository Accounts") in the name of Agent at a bank or banks for the deposit of such funds

and Borrower or the applicable Guarantor shall deposit all proceeds of Collateral or cause same to be deposited, in kind, in such Depository Accounts of Agent in lieu of depositing same to the Blocked Accounts. All costs and expenses of opening and maintaining the Blocked Accounts (and any Depository Accounts) shall be borne by Borrower. Notwithstanding the foregoing, the definition of "Blocked Accounts" shall not include any account with a balance at all times of less than \$25,000 during any consecutive thirty (30) day period.

(i) **Adjustments.** Borrower and each of its Subsidiaries will not, without Agent's consent, compromise or adjust any Receivables in excess of \$25,000 (or extend the time for payment thereof) or accept any returns of merchandise or grant any additional discounts, allowances or credits thereon except for those compromises, adjustments, extensions, returns, discounts, credits and allowances as have been heretofore customary in the business of Borrower and each of its Subsidiaries.

4.16 [Reserved]

4.17 Maintenance of Equipment. Borrower and each of its Subsidiaries shall not use or operate the Equipment in violation of any law, statute, ordinance, code, rule or regulation, unless such violation could not reasonably be expected to result in a Material Adverse Effect.

4.18 Exculpation of Liability. Nothing herein contained shall be construed to constitute Agent or any Lender as Borrower's and each of its Subsidiaries' agent for any purpose whatsoever, nor shall Agent or any Lender be responsible or liable for any shortage, discrepancy, damage, loss or destruction of any part of the Collateral wherever the same may be located and regardless of the cause thereof unless arising from gross negligence or willful misconduct of Agent or Lender or their agents. Neither Agent nor any Lender, whether by anything herein or in any assignment or otherwise, assume any of Borrower's or any of its Subsidiaries' obligations under any contract or agreement assigned to Agent or such Lender, and neither Agent nor any Lender shall be responsible in any way for the performance by Borrower or any of its Subsidiaries of any of the terms and conditions thereof.

4.19 Environmental Matters.

(a) Borrower and each of its Subsidiaries shall ensure that the Real Property remains in compliance in all material respects with all Environmental Laws and they shall not place, use, handle, generate, store, discharge, treat, dispose or permit any of the above with respect to any Hazardous Substances on any Real Property, except as permitted by applicable Environmental Laws.

(b) Borrower and each of its Subsidiaries shall (i) employ in connection with the use of the Real Property appropriate technology necessary to maintain compliance in all material respects with any applicable Environmental Laws and (ii) dispose of any and all Hazardous Waste generated at the Real Property only at facilities and with carriers that maintain valid permits under RCRA and any other applicable Environmental Laws.

(c) In the event Borrower or any of its Subsidiaries obtains, gives or receives notice of any Release or threat of Release of a reportable quantity of any Hazardous Substances at the Real Property (any such event being hereinafter referred to as a "Hazardous Discharge") or receives any notice of violation, request for information or notification that it is potentially responsible for investigation or cleanup of environmental conditions at the Real Property, demand letter or complaint, order, citation, or other written notice with regard to any Hazardous Discharge or violation of Environmental Laws affecting the Real Property or Borrower's or any of its Subsidiaries' interest therein (any of the foregoing is referred to herein as an "Environmental Complaint") from any Person, including any state agency responsible in whole or in part for environmental matters in the state in which the Real Property is located or the United States Environmental Protection Agency (any such person or entity hereinafter the "Authority"), then Borrower or the applicable Subsidiary shall, within five (5) Business Days, give written notice of same to Agent, along with a summary, detailing facts and circumstances of which Borrower or any of its Subsidiaries is aware giving rise to the Hazardous Discharge or Environmental Complaint and the measures that Borrower or the applicable Subsidiary proposes to take with respect thereto. Such information is to be provided to allow Agent to protect its security interest in the Real Property and the Collateral and is not intended to create nor shall it create any obligation upon Agent or any Lender with respect thereto.

(d) Borrower and each of its Subsidiaries shall promptly forward to Agent copies of any request for information, notification of potential liability, demand letter relating to potential responsibility with respect to the investigation or cleanup of Hazardous Substances at any other site owned, operated or used by Borrower or any of its Subsidiaries to dispose of Hazardous Substances and shall keep Agent updated (including forwarding copies of material correspondence) regarding the status such claims to Agent until the claim is settled. Borrower and each of its Subsidiaries shall promptly forward to Agent copies of all documents and reports concerning a Hazardous Discharge at the Real Property that Borrower and any of its Subsidiaries are required to file under any Environmental Laws. Such information is to be provided solely to allow Agent to protect Agent's security interest in the Real Property and the Collateral and is not intended to create nor shall it create any obligation upon Agent or any Lender with respect thereto.

(e) Borrower and each of its Subsidiaries shall respond promptly to any Hazardous Discharge or Environmental Complaint and take all necessary action in order to comply with Environmental Laws and to avoid subjecting the Collateral or Real Property to any Lien. If Borrower or any of its Subsidiaries shall fail to respond promptly to any Hazardous Discharge or Environmental Complaint or Borrower or any of its Subsidiaries shall fail to comply with any of the requirements of any Environmental Laws, Agent on behalf of Lenders may, but without the obligation to do so, for the sole purpose of protecting Agent's interest in the Collateral: (A) give required notices, or (B) enter onto the Real Property (or authorize third parties to enter onto the Real Property) and take such actions as Agent (or such third parties as directed by Agent) deem reasonably necessary or advisable, to clean up, remove, mitigate or otherwise deal with any such Hazardous Discharge or Environmental Complaint. All reasonable costs and expenses incurred by Agent and Lenders (or such third parties) in the exercise of any such rights, including any sums paid in connection with any judicial or administrative investigation or proceedings, fines and penalties, together with interest thereon from the date expended at the Default Rate for Domestic Rate Loans constituting Revolving Advances, shall

be paid upon demand by Borrower, and until paid shall be charged to Borrower's Account as a Revolving Advance of a Domestic Rate Loan (subject to Section 3.1 hereof) and such expenses so paid shall be part of the Obligations.

(f) Promptly upon the reasonable written request of Agent from time to time, Borrower and each of its Subsidiaries shall provide Agent, at Borrower's expense, with an environmental site assessment or environmental audit report prepared by an environmental engineering firm acceptable in the reasonable opinion of Agent and in conformity with applicable ASTM or industry standards for such site assessment or audit, to ascertain the existence of a Hazardous Discharge and the potential costs in connection with abatement, cleanup and removal of any Hazardous Substances found on, under, at or within the Real Property as required by applicable Environmental Laws in connection with such Hazardous Discharge. Any report or investigation of such Hazardous Discharge proposed and acceptable to an appropriate Authority that is charged to oversee the clean-up of such Hazardous Discharge shall be acceptable to Agent. If such estimates, individually or in the aggregate, exceed \$100,000, Agent shall have the right to require Borrower or any of its Subsidiaries to post a bond, letter of credit or other security reasonably satisfactory to Agent to secure payment of such costs and expenses.

(g) Borrower and each of its Subsidiaries shall defend and indemnify Agent and Lenders and hold Agent, Lenders and their respective employees, agents, directors and officers harmless from and against all loss, liability, damage and expense, claims, costs, fines and penalties, including reasonable attorney's fees, suffered or incurred by Agent or Lenders under or on account of any Environmental Laws, including, without limitation, the assertion of any Lien thereunder, with respect to any Hazardous Discharge, the presence of any Hazardous Substances affecting the Real Property, whether or not the same originates or emerges from the Real Property or any contiguous real estate, except to the extent such loss, liability, damage or expense is attributable to any Hazardous Discharge resulting from actions on the part of Agent or any Lender. Borrower's and each of its Subsidiaries' obligations under this Section 4.19 shall arise upon the discovery of the presence of any Hazardous Substances at the Real Property, whether or not any federal, state, or local environmental agency has taken or threatened any action in connection with the presence of any Hazardous Substances. Borrower's and each of its Subsidiaries' obligation and the indemnifications hereunder shall survive the termination of this Agreement.

(h) The Real Property of Borrower and each of its Subsidiaries is set forth on Schedule 4.19 attached hereto. For purposes of Section 4.19 and 5.7, all references to Real Property shall be deemed to include all of Borrower's and each of its Subsidiaries' right, title and interest in and to its owned and leased premises.

4.20 Financing Statements. Except as respects the financing statements filed by Agent and the financing statements described on Schedule 1.3, no financing statement covering any of the Collateral or any proceeds thereof is on file in any public office.

V. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1 *Authority.* Borrower and each Guarantor has full power, authority and legal right to enter into this Agreement and the Other Documents and to perform all its respective obligations hereunder and thereunder. This Agreement and the Other Documents constitute the legal, valid and binding obligation of Borrower and each of its Subsidiaries enforceable in accordance with their terms, except as such enforceability may be limited by any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally or general equitable principles. The execution, delivery and performance of this Agreement and of the Other Documents (a) are within Borrower's and each of its Subsidiaries' corporate powers, have been duly authorized, are not in contravention of law or the terms of Borrower's and each of its Subsidiaries' by-laws, certificate of incorporation or other similar documents relating to Borrower's and each of its Subsidiaries' formation or to the conduct of Borrower's and each of its Subsidiaries' business or of any material agreement or undertaking to which Borrower or any of its Subsidiaries is a party or by which Borrower or any of its Subsidiaries is bound, and (b) will not conflict with nor result in any breach in any of the provisions of or constitute a default under or result in the creation of any Lien except Permitted Encumbrances upon any asset of Borrower or any of its Subsidiaries under the provisions of any material agreement, charter document, instrument, by-law, or other instrument to which Borrower or any of its Subsidiaries is a party or by which it or its property may be bound.

5.2 *Formation and Qualification.*

(a) The Borrower is duly incorporated and in good standing under the laws of the State of Delaware and the Borrower is qualified to do business and is in good standing in the states listed on Schedule 5.2 which constitute all states in which qualification and good standing are necessary for the Borrower to conduct its business and own its property and where the failure to so qualify could reasonably be expected to have a Material Adverse Effect. The Borrower has delivered to Agent true and complete copies of its certificate of incorporation and by-laws and will promptly notify Agent of any amendment or changes thereto.

(b) All the Subsidiaries of the Borrower are listed on Schedule 5.2, along with each Subsidiary's state of incorporation and all states in which the Subsidiary is qualified to do business. Each Subsidiary is in good standing under the laws of the state in which it is incorporated and is qualified to do business and is in good standing under the laws of all other states listed on Schedule 5.2 which constitute all states in which qualification and good standing are necessary for the Borrower to conduct its business and own its property and where the failure to so qualify could reasonably be expected to have a Material Adverse Effect. The Borrower has delivered to Agent true and complete copies of the certificates of incorporation and by-laws of all Subsidiaries, and the Borrower will promptly notify Agent of any amendment or changes thereto.

5.3 Survival of Representations and Warranties. All representations and warranties of Borrower and each of its Subsidiaries contained in this Agreement and the Other Documents shall be true at the time of Borrower's execution of this Agreement and the Other Documents, and shall survive the execution, delivery and acceptance thereof by the parties thereto and the closing of the transactions described therein or related thereto.

5.4 Tax Returns. Borrower's and each of its Subsidiaries' federal tax identification number are set forth on Schedule 5.4. Borrower and each of its Subsidiaries' have filed all federal, state and local tax returns and other reports each is required by law to file and has paid all taxes, assessments, fees and other governmental charges that are due and payable unless being contested in good faith and for which adequate accruals for tax contingencies have been established as required under GAAP. Federal, state and local income tax returns of Borrower and each of its Subsidiaries have been examined and reported upon by the appropriate taxing authority or closed by applicable statute and satisfied for all fiscal years prior to and including the fiscal year ending December 31, 2006. The provision for taxes on the books of Borrower and each of its Subsidiaries is adequate for all years not closed by applicable statutes, and for its current fiscal year, and Borrower and each of its Subsidiaries have no knowledge of any deficiency or additional assessment in connection therewith not provided for on its books.

5.5 Financial Statements.

(a) [Reserved].

(b) The consolidated balance sheets of Borrower, its Subsidiaries and such other Persons described therein (including the accounts of all Subsidiaries for the respective periods during which a subsidiary relationship existed) as of December 31, 2011, and the related consolidated statements of income, changes in stockholder's equity, and changes in cash flow for the year ended on such date, all accompanied by a report thereon containing opinions without qualification by independent registered public accountants, copies of which have been delivered to Agent, have been prepared in good faith and in accordance with GAAP, consistently applied and present fairly the financial position of Borrower or its Subsidiaries at such date and the results of their operations for such period. Since December 31, 2011, there has been no material change in the condition, financial or otherwise, of Borrower and its Subsidiaries as shown on the consolidated balance sheet as of such date, except changes in the ordinary course of business, none of which individually or in the aggregate has been materially adverse.

5.6 Corporate Name. Borrower and its Subsidiaries have not been known by any other corporate name in the past five years and do not sell Inventory under any other name except as set forth on Schedule 5.6, nor has Borrower or any of its Subsidiaries been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any Person during the preceding five (5) years, except as set forth on Schedule 5.6.

5.7 O.S.H.A. and Environmental Compliance.

(a) Borrower and each of its Subsidiaries has duly complied with, and its facilities, business, assets, property, leaseholds and Equipment are in compliance in all material respects with, the provisions of the Federal Occupational Safety and Health Act, the Environmental Protection Act, RCRA and all other Environmental Laws; there are no outstanding citations, notices or orders of material non-compliance issued to Borrower or any of its Subsidiaries or relating to its business, assets, property, leaseholds or Equipment under any such laws, rules or regulations.

(b) Borrower and each of its Subsidiaries has been issued all required federal, state and local licenses, authorizations, approvals, certificates or permits relating to all applicable Environmental Laws.

(c) (i) Neither Borrower nor its Subsidiaries have released (as that term is defined in the Federal Comprehensive Environmental Response, Compensation & Liability Act, as amended) and, to the Borrower's knowledge, no party has released Hazardous Substances at, upon, to, in, under or within any Real Property or any premises leased by Borrower or any of its Subsidiaries in violation of applicable Environmental Law; (ii) to the knowledge of Borrower and its Subsidiaries, there are no underground storage tanks or polychlorinated biphenyls on the Real Property or any premises leased by Borrower or any of its Subsidiaries; (iii) to the knowledge of Borrower and its Subsidiaries, neither the Real Property nor any premises leased by Borrower or any of its Subsidiaries has ever been used as a treatment, storage or disposal facility of Hazardous Waste; and (iv) to the knowledge of Borrower and its Subsidiaries, no Hazardous Substances are present on the Real Property or any premises leased by Borrower or any of its Subsidiaries, excepting which do not violate applicable Environmental Law.

5.8 Solvency; No Litigation, Violation, Indebtedness or Default.

(a) Borrower and each of its Subsidiaries, individually and taken as a whole, is solvent, able to pay its debts as they mature, has capital sufficient to carry on its business and all businesses in which it is about to engage, and (i) as of the Closing Date, the fair present saleable value of its assets, calculated on a going concern basis, is in excess of the amount of its liabilities and (ii) subsequent to the Closing Date, the fair saleable value of its assets (calculated on a going concern basis) will be in excess of the amount of its liabilities.

(b) Except as disclosed in Schedule 5.8(b), neither Borrower nor any of its Subsidiaries has any (i) pending or threatened litigation, arbitration, actions or proceedings which if adversely determined could reasonably be expected to result in a Material Adverse Effect and (ii) liabilities or indebtedness for borrowed money other than the Obligations and the Permitted Indebtedness.

(c) Neither Borrower nor any of its Subsidiaries is in violation of any applicable statute, regulation or ordinance in any respect which could reasonably be expected to have a Material Adverse Effect, nor is Borrower or any of its Subsidiaries in violation of any order of any court, governmental authority or arbitration board or tribunal, in any respect which could reasonably be expected to have a Material Adverse Effect.

(d) Neither Borrower nor any of its Subsidiaries nor any member of the Controlled Group maintains or contributes to any Plan other than those listed on Schedule 5.8(d) hereto. Except as set forth in Schedule 5.8(d), (i) no Plan has incurred any “accumulated funding deficiency,” as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Code, whether or not waived, and Borrower and each of its Subsidiaries and each member of the Controlled Group has met all applicable minimum funding requirements under Section 302 of ERISA in respect of each Plan, (ii) each Plan which is intended to be a qualified plan under Section 401(a) of the Code as currently in effect has been determined by the Internal Revenue Service to be qualified under Section 401(a) of the Code and the trust related thereto is exempt from federal income tax under Section 501(a) of the Code, (iii) neither Borrower nor any of its Subsidiaries nor any member of the Controlled Group has incurred any liability to the PBGC other than for the payment of premiums, and there are no premium payments which have become due which are unpaid, (iv) no Plan has been terminated by the plan administrator thereof nor by the PBGC, and there is no occurrence which would cause the PBGC to institute proceedings under Title IV of ERISA to terminate any Plan, (v) at this time, the current value of the assets of each Plan equals or exceeds the present value of the accrued benefits and other liabilities of such Plan and neither Borrower nor any of its Subsidiaries nor any member of the Controlled Group knows of any facts or circumstances which would materially change the value of such assets and accrued benefits and other liabilities, (vi) neither Borrower nor any of its Subsidiaries nor any member of the Controlled Group has breached any of the responsibilities, obligations or duties imposed on it by ERISA with respect to any Plan, (vii) neither Borrower nor any of its Subsidiaries nor any member of a Controlled Group has incurred any liability for any excise tax arising under Section 4972 or 4980B of the Code, and no fact exists which could give rise to any such liability, (viii) neither Borrower nor any of its Subsidiaries nor any member of the Controlled Group nor any fiduciary of, nor any trustee to, any Plan, has engaged in a “prohibited transaction” described in Section 406 of the ERISA or Section 4975 of the Code nor taken any action which would constitute or result in a Termination Event with respect to any such Plan which is subject to ERISA, (ix) Borrower, each of its Subsidiaries and each member of the Controlled Group has made all contributions due and payable with respect to each Plan, (x) there exists no event described in Section 4043(b) of ERISA, for which the thirty (30) day notice period contained in 29 CAR §2615.3 has not been waived, (xi) neither Borrower nor any of its Subsidiaries nor any member of the Controlled Group has any fiduciary responsibility for investments with respect to any plan existing for the benefit of persons other than employees or former employees of Borrower, any of its Subsidiaries, Affiliates and any member of the Controlled Group, and (xii) neither Borrower nor any of its Subsidiaries nor any member of the Controlled Group has withdrawn, completely or partially, from any Multiemployer Plan so as to incur liability under the Multiemployer Pension Plan Amendments Act of 1980.

5.9 [Reserved]

5.10 Licenses and Permits. Except as set forth in Schedule 5.10, Borrower and each of its Subsidiaries (a) are in compliance with and (b) have procured and are now in possession of, all material licenses or permits required by any applicable federal, state, provincial or local law or regulation for the operation of its business in each jurisdiction wherein it is now conducting or proposes to conduct business and where the failure to procure such licenses or permits could have a Material Adverse Effect.

5.11 Default of Indebtedness. Borrower and each of its Subsidiaries are not in default in the payment of the principal of or interest on any Indebtedness in excess of \$1,000,000 or under any instrument or agreement under or subject to which any Indebtedness has been issued and no event has occurred under the provisions of any such instrument or agreement which with or without the lapse of time or the giving of notice, or both, constitutes or would constitute an event of default thereunder.

5.12 No Default. Borrower and each of its Subsidiaries are not in default in the payment or performance of any of its contractual obligations in excess of \$1,000,000 and no Default has occurred.

5.13 [Reserved]

5.14 Margin Regulations. Neither Borrower nor any of its Subsidiaries is engaged, nor will it engage, principally or as one of its important activities, in the business of extending credit for the purpose of “purchasing” or “carrying” any “margin stock” within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. No part of the proceeds of any Advance will be used for “purchasing” or “carrying” “margin stock” as defined in Regulation U of such Board of Governors.

5.15 Investment Company Act. Neither Borrower nor any of its Subsidiaries is an “investment company” registered or required to be registered under the Investment Company Act of 1940, as amended, nor is it controlled by such a company.

5.16 Disclosure. No representation or warranty made by Borrower or any of its Subsidiaries in this Agreement or in any financial statement, report, certificate or any other document furnished in connection herewith contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein not misleading. There is no fact known to Borrower or any of its Subsidiaries or which reasonably should be known to Borrower or any of its Subsidiaries which Borrower or any of its Subsidiaries has not disclosed to Agent in writing with respect to the transactions contemplated by this Agreement which could reasonably be expected to have a Material Adverse Effect.

5.17 [Reserved]

5.18 Interest Rate Protection Agreement. Neither Borrower nor any of its Subsidiaries is not a party to, nor will it be a party to, any Interest Rate Protection Agreement unless it is a Secured Interest Rate Protection Agreement.

5.19 Conflicting Agreements. No provision of any mortgage, indenture, contract, agreement, judgment, decree or order binding on Borrower or any of its Subsidiaries or affecting the Collateral conflicts with, or requires any Consent which has not already been obtained to, or would in any way prevent the execution, delivery or performance of, the terms of this Agreement or the Other Documents.

5.20 Application of Certain Laws and Regulations. Neither Borrower nor any Subsidiary of Borrower is subject to any statute, rule or regulation which regulates the incurrence of any Indebtedness, including without limitation, statutes or regulations relative to common or interstate carriers or to the sale of electricity, gas, steam, water, telephone, telegraph or other public utility services.

5.21 Business and Property of Borrower. Upon and after the Closing Date, Borrower and each of its Subsidiaries do not propose to engage in any business other than the Line of Business or lines of business and activities necessary, incidental or related to conduct its business as presently conducted. On the Closing Date, Borrower and its Subsidiaries will own all the property and possess all of the rights and Consents necessary for the conduct of the business of Borrower and each of its Subsidiaries. Neither Borrower nor any of its Subsidiaries has changed or otherwise added any locations at which it conducts business or maintains any assets or other property, except as previously disclosed in writing to the Agent or as otherwise permitted herein.

5.22 Section 20 Subsidiaries. Borrower does not intend to use and shall not use any portion of the proceeds of the Advances, directly or indirectly, to purchase during the underwriting period, or for 30 days thereafter, Ineligible Securities being underwritten by a Section 20 Subsidiary.

5.23 Investigations, Audits, Etc. Except as set forth on Schedule 5.23, as of Closing neither Borrower nor any of its Subsidiaries is the subject of any review or audit by the Internal Revenue Service or any governmental investigation concerning the violation or possible violation of any law.

5.24 Brokerage. Except as set forth on Schedule 5.24, there are no claims for broker's, finder's, due diligence, structuring, debt or equity placement fees, commissions, or similar compensation payable with respect to the consummation of this financing, other than fees payable to the Lenders.

VI. AFFIRMATIVE COVENANTS.

Borrower shall and shall cause each of its Subsidiaries to, until payment in full of the Obligations and termination of this Agreement:

6.1 Payment of Fees. Pay to Agent on demand all usual and customary fees and expenses which Agent incurs in connection with (a) the forwarding of Advance proceeds and (b) the establishment and maintenance of any Blocked Accounts or Depository Accounts as provided for in Section 4.15(h). Agent may, without making demand, charge Borrower's Account for all such fees and expenses.

6.2 Conduct of Business and Maintenance of Existence and Assets.

(a) Conduct and operate its business according to good business practices and maintain all of its properties useful or necessary in its business in good working order and condition (reasonable wear and tear excepted and except as may be disposed of in accordance with the terms of this Agreement), (b) keep in full force and effect its existence and comply in all material respects with the laws and regulations governing the conduct of its business where the failure to do so could reasonably be expected to have a Material Adverse Effect; and (c) make all such reports and pay all such franchise and other taxes and license fees and do all such other acts and things as may be lawfully required to maintain its rights, licenses, leases, powers and franchises under the laws of the United States or any political subdivision, the absence of which could reasonably be expected to have a Material Adverse Effect.

6.3 Violations. Promptly notify Agent in writing of any violation of any law, statute, regulation or ordinance of any Governmental Body, or of any agency thereof, applicable to Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

6.4 Leasehold Agreements Borrower shall (a) provide to Agent no later than thirty (30) days after the Closing Date landlord agreements (and, if applicable, affirmations of landlord agreements) satisfactory to Agent with respect to all premises leased by the Borrower or any Guarantor which are listed on Schedule 6.4, (b) prior to Borrower or any Guarantor changing its chief executive office or moving the location of its books and records, notify the Agent of its intention to do so and, (c) prior to Borrower or any Guarantor changing its chief executive office or moving the location of its books and records, if Agent in its sole discretion so requires, provide to Agent (i) landlord agreements satisfactory to Agent with respect to the premises that are such new chief executive office or location of books and records, and (ii) an updated Schedule 6.4 which accurately states the location of all premises with respect to which landlord agreements have been provided to the Agent (the premises listed on Schedule 6.4 from time to time shall be referred to herein as the "Landlord Access Properties");

6.5 Minimum Consolidated Net Worth. Maintain a minimum Consolidated Net Worth of (i) \$250,000,000 plus (ii) on a cumulative basis, an amount equal to fifty percent (50%) of the Consolidated Net Income of Borrower and its Subsidiaries in each quarter thereafter, commencing with the fiscal quarter ending March 31, 2012.

6.6 Maximum Funded Debt Ratio. Maintain a Funded Debt Ratio of not greater than 2.0:1.0.

6.7 Execution of Supplemental Instruments. Execute and deliver to Agent from time to time, upon demand, such supplemental agreements, statements, assignments and transfers, or instructions or documents relating to the Collateral, and such other instruments as Agent may reasonably request, in order that the full intent of this Agreement may be carried into effect.

6.8 Payment of Indebtedness. Pay, discharge or otherwise satisfy at or before maturity (subject, where applicable, to specified grace periods and, in the case of the trade payables, to normal payment practices) all its obligations and liabilities of whatever nature, except when the failure to do so could not reasonably be expected to have a Material Adverse Effect or when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and Borrower and each of its Subsidiaries shall have provided for such reserves as Agent may reasonably deem proper and necessary, subject at all times to any applicable subordination arrangement in favor of Lenders.

6.9 Standards of Financial Statements. Cause all financial statements referred to in Sections 9.7, 9.8, 9.11, 9.12, 9.13 and 9.14 as to which GAAP is applicable to be complete and correct in all material respects (subject, in the case of interim financial statements, to normal year-end audit adjustments) and to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein (except as concurred in by such reporting accountants or officer, as the case may be, and disclosed therein).

6.10 Covenant to Assume Obligations and Give Security. Upon (a) the request of the Agent, (b) the formation or acquisition of any new direct or indirect Subsidiary of Borrower or any of its Subsidiaries, or (c) the acquisition of any property by Borrower or any of its Subsidiaries, and such property which would otherwise constitute Collateral, in the judgment of the Agent, upon request shall not already be subject to a perfected first priority security interest in favor of the Agent for the benefit of the Lenders, then Borrower and each of its Subsidiaries shall, in each case at Borrower's and each Subsidiary's expense jointly and severally:

(i) within 15 days after such request, formation or acquisition of a Subsidiary, cause each such Subsidiary and each direct and indirect Subsidiary of such Subsidiary to duly execute and deliver to the Agent a joinder agreement, in form and

substance satisfactory to the Agent, thereby joining this agreement as a Guarantor and grantor of security interests and liens and assuming all of the Obligations under this Agreement and the Other Documents *provided* that no joinder, grant of a security interest or assumption may be required (if acceptable to the Agent) from a Subsidiary organized or located outside of the United States if the execution and delivery thereof would result in material adverse tax consequences to Borrower or any of its Subsidiaries (as applicable); and

(ii) at any time from time to time, promptly execute and deliver any and all further instruments and documents and take all such other action as the Agent may deem reasonably necessary or desirable in obtaining the full benefits of, or in perfecting and preserving the Liens of, such assumptions, joinders, mortgages, pledges, assignments, security agreements and security agreement supplements.

6.11 Further Assurances.

(a) Promptly upon request by the Agent, or any Lender through the Agent, correct any material defect or error that may be discovered in this Agreement or any Other Document or in the execution, acknowledgement, filing or recordation thereof, and

(b) Promptly upon request by the Agent, or any party through the Agent, do, execute, acknowledge, deliver, record, re-record, file, re-file, register and re-register any and all such further acts, deeds, conveyances, pledge agreements, mortgages, deeds of trust, trust deeds, assignments, financing statements and continuations thereof, termination statements, notices of assignment, transfers, certificates, assurances and other instruments as the Agent, or any Lender through the Agent, may reasonably require from time to time in order to (i) carry out more effectively the purposes of this Agreement or any Other Document, (ii) to the fullest extent permitted by applicable law, subject Borrower's or any of its Subsidiaries' properties, assets, rights or interests to the Liens now or hereafter intended to be covered by any of the Other Documents, (iii) perfect and maintain the validity, effectiveness and priority of any of the Other Documents and any of the Liens intended to be created thereunder and (iv) assure, convey, grant, assign, transfer, preserve, protect and confirm more effectively unto the Agent and the Lenders the rights granted or now or hereafter intended to be granted to the Agent and the Lenders under this Agreement or any Other Documents or under any other instrument executed in connection with this Agreement or any Other Document to which Borrower or any of its Subsidiaries is or is to be a party.

6.12 Keeping of Books and Records. Keep proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of Borrower and each of its Subsidiaries in accordance with GAAP.

6.13 Bank Accounts. Maintain at all times of its primary operating and disbursement account with the Agent; provided, however, that Borrower and each of its Subsidiaries may maintain deposits in

employee payroll or other similar ordinary course of business accounts with financial institutions other than the Agent so long as Borrower, each of its Subsidiaries, the third party bank and the Agent have executed a Blocked Account Agreement.

VII. NEGATIVE COVENANTS.

Borrower shall not, and shall not permit any of its Subsidiaries to, until satisfaction in full of the Obligations and termination of this Agreement unless approved by Agent:

7.1 Merger, Consolidation, Acquisition and Sale of Assets.

(a) Enter into any merger, consolidation or other reorganization with or into any other Person or acquire all or a substantial portion of the assets or stock of any Person or permit any other Person to consolidate with or merge with it, except Permitted Acquisitions or the merger of a Subsidiary into another Subsidiary or the Borrower.

(b) Sell, lease, transfer or otherwise dispose of any of its properties or assets, except (i) inventory or other assets in the ordinary course of its business, or (ii) as provided for under Section 4.3 hereof, or (iii) from a Subsidiary to the Borrower or a Guarantor, (iv) from the Borrower to a Guarantor, or (v) excess or obsolete equipment not to exceed \$500,000 net book value per annum; or

(c) Acquire all or a substantial portion of the assets or stock or other equity interests in any Person other than a Permitted Acquisition.

7.2 Creation of Liens. Create or suffer to exist any Lien or transfer upon or against any of its property or assets now owned or hereafter acquired, except Permitted Encumbrances.

7.3 Guarantees. Become liable upon the obligations of any Person by assumption, endorsement or guaranty thereof or otherwise (other than to Lenders) except (a) as disclosed on Schedule 7.3, (b) the endorsement of checks in the ordinary course of business, (c) guarantees of the Borrower or Guarantors to third party vendors, service providers, lessor or other trade creditors of obligations entered into by the Borrower or any Guarantor in the ordinary course of business, and (d) other guarantees by the Borrower or any Guarantor, provided that with respect to guarantees under this clause (d), the Agent shall have received written notice of any such guarantee to the extent relating to obligations that exceed \$1,000,000 prior to execution thereof by such Borrower or Guarantor.

7.4 Investments. Purchase or acquire obligations or stock of, or any other interest in, any Person, except (a) obligations issued or guaranteed by the United States of America or any agency thereof, (b) commercial paper with maturities of not more than 180 days and a published rating of not less

than A-1 or P-1 (or the equivalent rating), (c) certificates of time deposit and bankers' acceptances having maturities of not more than 180 days and repurchase agreements backed by United States government securities of a commercial bank if (i) such bank has a combined capital and surplus of at least \$500,000,000, or (ii) its debt obligations, or those of a holding company of which it is a Subsidiary, are rated not less than A (or the equivalent rating) by a nationally recognized investment rating agency, (d) U.S. money market funds that invest solely in obligations issued or guaranteed by the United States of America, state or municipality or an agency thereof and (e) Permitted Acquisitions, (f) intercompany loans to a Borrower or Guarantor and equity investments in a Guarantor, (g) Foreign Exchange Agreements to the extent otherwise prohibited by this section, and (h) transactions permitted under Sections 7.1 and 7.5 hereof.

7.5 Loans. Make advances, loans or extensions of credit to any Person, including without limitation, any Subsidiary or Affiliate except (a) with respect to the extension of commercial trade credit in connection with the sale of Inventory in the ordinary course of its business, (b) loans or advances for employee advances, employee purchases of computer products and temporary relocation advances not to exceed \$2,000,000 in the aggregate outstanding at any one time and (c) intercompany loans to the Borrower or a Guarantor.

7.6 [Reserved]

7.7 [Reserved]

7.8 Indebtedness. Create, incur, assume or suffer to exist any Indebtedness (exclusive of trade debt) except in respect of (a) Obligations owing to Lenders; (b) Permitted Subordinated Indebtedness; (c) Permitted Vendor Debt including guarantees thereof; (d) Indebtedness secured by purchase money liens or incurred in connection with capital leases; provided, however, that the maximum aggregate amount outstanding at any time of such Indebtedness shall not exceed \$15,000,000; (e) guarantees permitted under Section 7.3; (f) intercompany loans to the Borrower or a Guarantor; and (g) unsecured Indebtedness comprised of earn out payments, seller paper or deferred purchase price payments entered into in connection with Permitted Acquisitions.

7.9 Nature of Business. Substantially change the nature of the business in which it is presently engaged or substantially related thereto, nor except as specifically permitted hereby purchase or invest, directly or indirectly, in any assets or property other than in the ordinary course of business for assets or property which are useful in, necessary for and are to be used in its business as presently conducted or substantially related thereto.

7.10 Transactions with Affiliates. Directly or indirectly, purchase, acquire or lease any property from, or sell, transfer or lease any property to, or otherwise deal with, any Affiliate, except (a) transactions in the ordinary

course of business consistent with past practices and necessary or desirable for the prudent operation of Borrower's and its Subsidiaries' business for fair consideration and, on an arm's-length basis on terms no less favorable than terms which have been disclosed to the Agent and which would have been obtainable from a Person other than an Affiliate and (b) payment of salaries, fees and bonuses to its directors, officers and employees as are usual and customary in the Borrower's or its Subsidiaries business.

7.11 Subsidiaries.

(a) Form any Subsidiary unless (i) such Subsidiary, to the extent required under Section 6.10, expressly joins in this Agreement as a Guarantor and a grantor of a security interest and guarantees the obligations of Borrower hereunder, under the Note, and under any Other Agreement and (ii) Agent shall have received all documents, including legal opinions, it may reasonably require to establish compliance with each of the foregoing conditions.

(b) Enter into any partnership, joint venture or similar arrangement.

(c) Make a capital contribution to any Subsidiary, unless such Subsidiary and Borrower have complied with Section 7.11(a) hereof.

7.12 Fiscal Year and Accounting Changes. Change its fiscal year from ending on December 31, or make any change in accounting treatment and reporting practices except as required or permitted as preferable by GAAP.

7.13 Pledge of Credit. Now or hereafter pledge Agent's or any Lender's credit on any purchases or for any purpose whatsoever or use any portion of any Advance in or for any business other than Borrower's and its Subsidiaries' business as conducted on the date of this Agreement, or for transactions permitted hereunder.

7.14 Amendment of Articles of Incorporation, By-Laws. Amend, modify or waive any term or material provision of its Articles of Incorporation or by-laws in any way that is adverse to the Agent or any Lender, unless required by law.

7.15 Compliance with ERISA. (a) (i) Maintain, or permit any member of the Controlled Group to maintain, or (ii) become obligated to contribute, or permit any member of the Controlled Group to become obligated to contribute, to any Plan, other than those Plans disclosed on Schedule 5.8(d), except that contributions are permitted to the Plan or Plans of a newly-acquired Subsidiary that is also a Guarantor if such Plan or Plans or contributions would not place the Borrower or Subsidiary in violation of this Section 7.15, (b) engage, or permit any member of the Controlled Group to engage, in any non-exempt "prohibited transaction", as that term is defined in section 406 of ERISA and Section 4975 of the Code, (c) incur, or permit any member of the Controlled Group to incur, any "accumulated funding deficiency", as that term is defined in Section 302 of ERISA

or Section 412 of the Code, (d) terminate, or permit any member of the Controlled Group to terminate, any Plan where such event could reasonably likely result in any material liability of Borrower or any of its Subsidiaries or any member of the Controlled Group or the imposition of a lien on the material property of Borrower or any of its Subsidiaries or any member of the Controlled Group pursuant to Section 4068 of ERISA, (e) assume, or permit any member of the Controlled Group to assume, any obligation to contribute to any Multiemployer Plan not disclosed on Schedule 5.8(d), (f) incur, or permit any member of the Controlled Group to incur, any withdrawal liability to any Multiemployer Plan; (g) fail promptly to notify Agent of the occurrence of any Termination Event, (h) fail to comply, or permit a member of the Controlled Group to fail to comply, with the material requirements of ERISA or the Code or other applicable laws in respect of any Plan, (i) fail to meet, or permit any member of the Controlled Group to fail to meet, all minimum funding requirements under ERISA or the Code or postpone or delay or allow any member of the Controlled Group to postpone or delay any funding requirement with respect of any Plan such as could in any instance have a Material Adverse Effect.

7.16 Prepayment of Indebtedness. Except Indebtedness permitted pursuant to Sections 7.8(b) and 7.8(c) hereof, at any time, directly or indirectly (including by offset), prepay any Indebtedness (other than to Lenders), or, except for prepayments of loans permitted in Section 7.5(e), repurchase, redeem, retire or otherwise acquire any Indebtedness of Borrower or any of its Subsidiaries.

7.17 Other Agreements. Enter into any material amendment, waiver or modification of any material agreement in any manner materially adverse to Lenders.

VIII. CONDITIONS PRECEDENT.

8.1 Conditions to Initial Advances. The agreement of Lenders to make the initial Advances requested to be made on the Closing Date is subject to the satisfaction, or waiver by Agent, immediately prior to or concurrently with the making of such Advances, of the following conditions precedent:

(a) **Loan Documentation.** Agent shall have received this Agreement and the Other Documents, each duly executed and delivered by an authorized officer of Borrower and each of its Subsidiaries, including any affirmations, confirmations, amendments or modifications thereto required by Agent;

(b) **Filings, Registrations and Recordings.** Each document (including, without limitation, any Uniform Commercial Code financing statement) required by this Agreement, any related agreement or under law or reasonably requested by the Agent to be filed, registered or recorded in order to create, in favor of Agent, a perfected first priority security interest in or lien upon the Collateral shall have been properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is so required or requested, and Agent shall

have received an acknowledgment copy, or other evidence satisfactory to it, of each such filing, registration or recordation and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto;

(c) Corporate Proceedings of Borrower. Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors of Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Other Documents and any related agreements, and (ii) the granting by Borrower of the security interests in and liens upon the Collateral in each case certified by the Secretary or an Assistant Secretary of Borrower as of the Closing Date; 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) Incumbency Certificates of Borrower. Agent shall have received a certificate of the Secretary or an Assistant Secretary of Borrower, dated the Closing Date, as to the incumbency and signature of the officers of Borrower executing this Agreement, the Other Documents, 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) Corporate Proceedings of each Guarantor. Agent shall have received a copy of the resolutions in form and substance reasonably satisfactory to Agent, of the Board of Directors of each Guarantor authorizing the execution, delivery and performance of the Guaranty certified by the Secretary or an Assistant Secretary of each Guarantor as of the Closing Date; 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;

(f) Incumbency Certificates of each Guarantor. Agent shall have received a certificate of the Secretary or an Assistant Secretary of each Guarantor, dated the Closing Date, as to the incumbency and signature of the officers of each Guarantor executing this Agreement, any certificate or other documents to be delivered by it pursuant hereto, together with evidence of the incumbency of such Secretary or Assistant Secretary;

(g) Certificates. Agent shall have received a copy of the Articles of Incorporation of the Borrower and each Guarantor, and all amendments thereto, certified by the Secretary of State or other appropriate official of such jurisdiction of incorporation, together with copies of the by-laws of the Borrower and each Guarantor certified as accurate and complete by the Secretary of the Borrower;

(h) Good Standing Certificates. Agent shall have received good standing certificates for Borrower and each Guarantor dated not more than ten (10) days prior to the Closing Date, issued by the Secretary of State or other appropriate official of the applicable jurisdiction of incorporation or formation, as applicable, and each jurisdiction where the conduct of Borrower's and each of its Subsidiaries' business activities or the ownership of its properties necessitates qualification;

(i) Legal Opinion. Agent shall have received the executed legal opinion of Wilmer Cutler Pickering Hale and Dorr LLP in form and substance satisfactory to Agent which

shall cover such matters incident to the transactions contemplated by this Agreement, the Other Documents, and related agreements as Agent may reasonably require and Borrower and each of its Subsidiaries hereby authorize and direct such counsel to deliver such opinions to Agent and Lenders;

(j) No Litigation. (i) No litigation, investigation or proceeding before or by any arbitrator or Governmental Body shall be continuing or threatened against Borrower or any of its Subsidiaries or against the officers or directors of Borrower or any of its Subsidiaries arising from their conduct as officers or directors of Borrower or any of its Subsidiaries (A) in connection with this Agreement, the Other Documents or any of the transactions contemplated thereby and which, in the reasonable opinion of Agent, is deemed material or (B) which could, in the reasonable opinion of Agent, have a Material Adverse Effect; and (ii) no injunction, writ, restraining order or other order of any nature materially adverse to Borrower or any of its Subsidiaries or the conduct of its business shall have been issued by any Governmental Body;

(k) Collateral Examination. Agent shall have completed investigations, Collateral examinations and received appraisals, the results of which shall be satisfactory in form and substance to Lenders, of the Receivables, Inventory, Real Property, Leasehold Interest and Equipment of Borrower and each of its Subsidiaries and all books and records in connection therewith;

(l) Fees and Expenses. Agent shall have received all fees payable to Agent and Lenders on or prior to the Closing Date and all other amounts due to the Agent (including reimbursement of fees and expenses incurred in connection with this transaction);

(m) [Reserved];

(n) Insurance. Agent shall have received in form and substance satisfactory to Agent, a certificate of insurance of Borrower's and each of its Subsidiaries' existing liability insurance policies, together with endorsements naming Agent additional insured;

(o) Payment Instructions. Agent shall have received written instructions from Borrower directing the application of proceeds of the initial Advances made pursuant to this Agreement;

(p) Blocked Accounts. Agent shall have received duly executed agreements establishing the Blocked Accounts for Depository Accounts with financial institutions acceptable to Agent for the collection or servicing of the Receivables and proceeds of the Collateral;

(q) Consents. Agent shall have received any and all consents necessary to permit the effectuation of the transactions contemplated by this Agreement and the Other Documents; and, Agent shall have received such Consents and waivers of such third parties as might assert claims with respect to the Collateral, as Agent and its counsel shall deem necessary including without limitation, any UCC-3 termination statement or mortgages assigned to the Agent or discharged;

(r) No Adverse Material Change. (a) Since September 30, 2011, there shall not have occurred any event, condition or state of facts which could reasonably be expected to have a Material Adverse Effect and (b) no representations made or information supplied to Agent or Lenders shall have been proven to be inaccurate or misleading in any material respect;

(s) [Reserved];

(t) Closing Certificate. Agent shall have received a closing certificate signed by the Chief Financial Officer of Borrower dated as of the date hereof, stating that (i) all representations and warranties set forth in this Agreement and the Other Documents are true and correct on and as of such date, (ii) Borrower is on such date in compliance with all the terms and provisions set forth in this Agreement and the Other Documents and (iii) on such date no Default or Event of Default has occurred or is continuing; and

(u) Other. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated hereunder shall be satisfactory in form and substance to Agent and its counsel.

8.2 Conditions to Each Advance. The agreement of Lenders to make any Advance requested to be made on any date (including, without limitation, the initial Advance), is subject to the satisfaction of the following conditions precedent as of the date such Advance is made:

(a) Representations and Warranties. Each of the representations and warranties made by Borrower and its Subsidiaries in or pursuant to this Agreement and any related agreements to which it is a party, and each of the representations and warranties contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement or any related agreement shall be true and correct in all material respects on and as of such date as if made on and as of such date except those representations and warranties made as of a specific date;

(b) No Default. No Event of Default or Default shall have occurred and be continuing on such date, or would exist after giving effect to the Advances requested to be made, on such date; provided, however that Agent, in its sole discretion, may continue to make Advances notwithstanding the existence of an Event of Default or Default and that any Advances so made shall not be deemed a waiver of any such Event of Default or Default; and

(c) Maximum Advances. In the case of any Advances requested to be made, after giving effect thereto, the aggregate Advances shall not exceed the maximum amount of Advances permitted under Section 2.1 hereof.

Each request for an Advance by Borrower hereunder shall constitute a representation and warranty by Borrower as of the date of such Advance that the conditions contained in this subsection shall have been satisfied.

IX. INFORMATION AS TO BORROWER.

Borrower shall and shall cause each Guarantor to, until satisfaction in full of the Obligations and the termination of this Agreement:

9.1 Disclosure of Material Matters. Immediately upon learning thereof, report to Agent all matters materially and adversely affecting the value, enforceability or collectibility of any portion of the Collateral including, without limitation, Borrower's or any of its Guarantors' reclamation or repossession of, or the return to Borrower or any of its Guarantor of, a material amount of goods or claims or disputes asserted by any Customer.

9.2 Schedules. Borrower will deliver to Agent at such intervals as Agent may require: (x) copies of Customer's invoices, (y) evidence of shipment or delivery, and (z) such further schedules, documents and/or information regarding the Collateral as Agent may require including, without limitation, trial balances and test verifications. Agent shall have the right to confirm and verify all Receivables by any manner and through any medium it considers advisable and do whatever it may deem reasonably necessary to protect its interests hereunder. The items to be provided under this Section are to be in form satisfactory to Agent and executed by Borrower and delivered to Agent from time to time solely for Agent's convenience in maintaining records of the Collateral, and Borrower's failure to deliver any of such items to Agent shall not affect, terminate, modify or otherwise limit Agent's Lien with respect to the Collateral.

9.3 Environmental Reports. Furnish Agent, concurrently with the delivery of the financial statements referred to in Section 9.7, with a certificate signed by the President of Borrower stating, to the best of his knowledge, that Borrower and each of its Subsidiaries is in compliance in all material respects with all federal, state and local laws relating to environmental protection and control and occupational safety and health. To the extent Borrower or any of its Subsidiaries is not in compliance with the foregoing laws, the certificate shall set forth with specificity all areas of non-compliance and the proposed action Borrower or the applicable Subsidiary will implement in order to achieve full compliance.

9.4 Litigation. Promptly notify Agent in writing of any litigation, suit or administrative proceeding affecting Borrower or any of its Subsidiaries, whether or not the claim is covered by insurance, and of any suit or administrative proceeding, which in any such case could reasonably be expected to have a Material Adverse Effect.

9.5 Material Occurrences. Promptly notify Agent in writing upon the occurrence of (a) any Event of Default or Default; (b) any event, development or circumstance whereby any financial statements or other reports

furnished to Agent fail in any material respect to present fairly, in accordance with GAAP consistently applied, the financial condition or operating results of Borrower or any of its Subsidiaries as of the date of such statements; (c) any accumulated retirement plan funding deficiency which, if such deficiency continued for two plan years and was not corrected as provided in Section 4971 of the Code, could subject Borrower or any of its Subsidiaries to a tax imposed by Section 4971 of the Code; (d) each and every default by Borrower or any of its Subsidiaries which could reasonably be expected to result in the acceleration of the maturity of any Indebtedness, including the names and addresses of the holders of such Indebtedness with respect to which there is a default existing or with respect to which the maturity has been or could be accelerated, and the amount of such Indebtedness; and (e) any other development in the business or affairs of Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect; in each case describing the nature thereof and the action Borrower or the applicable Subsidiary proposes to take with respect thereto.

9.6 Permitted Acquisitions. For any Permitted Acquisition with respect to which the aggregate consideration paid or payable by Borrower (including earn out payments, seller paper or deferred purchase price payments) exceeds \$10,000,000, (a) notify Agent in writing no less than ten (10) Business Days prior to the date that such acquisition is consummated, and (b) furnish to Agent no less than ten (10) Business Days prior to the date that such acquisition is consummated a pro forma Compliance Certificate satisfactory to the Agent demonstrating that no Default or Event of Default shall have occurred or result from such Acquisition.

9.7 Annual Financial Statements. Furnish Agent within ninety (90) days after the end of each fiscal year of Borrower and each of its Subsidiaries, consolidated financial statements of Borrower and each of its Subsidiaries including, but not limited to, (a) statements of income and stockholders' equity and cash flow from the beginning of the current fiscal year to the end of such fiscal year and the balance sheet as at the end of such fiscal year, all prepared in accordance with GAAP applied, except for changes required by new accounting pronouncements, promulgated by the Financial Accounting Standards Board ("FASB") on a basis consistent with prior practices, and in reasonable detail and reported upon without qualification by Deloitte & Touche LLP or another independent certified public accounting firm selected by Borrower and satisfactory to Agent (the "Accountants"), (b) a management prepared (i) schedule of the outstanding Indebtedness for borrowed money of Borrower and each of its Subsidiaries describing in reasonable detail each such Indebtedness issued or loan outstanding and the principal amount and amount accrued and unpaid interest with respect to each such Indebtedness issued or loan and (ii) consolidating management prepared financial statements of Borrower and each of its Subsidiaries, and (c) any management letters delivered by the Accountants to the Borrower. If requested by the Agent, the report of the Accountants shall be accompanied by a statement of the Accountants confirming that (a) they have caused this Agreement to be reviewed, (b) in making the examination upon which such report was based either no information came to their attention which to their knowledge constituted an Event of Default or a Default under this Agreement or any related agreement or, if such information came to their attention, specifying any such Default or Event of Default, its nature, when it occurred and whether it is continuing, and such report shall contain

or have appended thereto calculations which set forth Borrower's and any of its Subsidiaries', as applicable, compliance with the requirements or restrictions imposed by Sections 6.5 and 6.6 hereof. In addition, the reports shall be accompanied by (a) accounts receivable agings (b) accounts payable schedules and (c) a compliance certificate of Borrower's Chief Financial Officer substantially in the form of Exhibit 9.7 (the "Compliance Certificate") which shall state that, based on an examination sufficient to permit him to make an informed statement, no Default or Event of Default exists, or, if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by Borrower or the applicable Subsidiary with respect to such event, and such certificate shall have appended thereto calculations which set forth Borrower's and any of its Subsidiaries', as applicable, compliance with the requirements or restrictions imposed by Sections 6.5 and 6.6 hereof.

9.8 Quarterly Financial Statements. Furnish Agent within forty-five (45) days after the end of each quarter, including the last quarter of the fiscal year an unaudited consolidated and management prepared consolidating balance sheet of Borrower and its Subsidiaries and unaudited statements of income and stockholders' equity and cash flow of Borrower and its Subsidiaries reflecting results of operations from the beginning of the fiscal year to the end of such quarter and for such quarter, prepared, except for changes required by new accounting pronouncements promulgated by FASB, on a basis consistent with prior practices and complete and correct in all material respects, subject to normal and recurring year end adjustments. The reports shall be accompanied by a Compliance Certificate substantially in the form of Exhibit 9.7 which shall include a certificate of Borrower's Chief Financial Officer, which shall state that, based on an examination sufficient to permit him to make an informed statement, no Default or Event of Default exists, or, if such is not the case, specifying such Default or Event of Default, its nature, when it occurred, whether it is continuing and the steps being taken by Borrower or the applicable Subsidiary with respect to such event and, such certificate shall have appended thereto calculations which set forth Borrower's and any of its Subsidiaries', as applicable, compliance with the requirements or restrictions imposed by Sections 6.5 and 6.6 hereof.

9.9 [Reserved]

9.10 [Reserved]

9.11 Other Reports. Furnish Agent as soon as available, but in any event within ten (10) days after the issuance thereof, with copies of such financial statements, reports and returns as Borrower or any of its Subsidiaries shall send to its stockholders.

9.12 Additional Information. Furnish Agent with such additional information as Agent shall reasonably request in order to enable Agent to determine whether the terms, covenants, provisions and conditions of this Agreement and the Note have been complied with by Borrower and each of its Subsidiaries

including, without limitation and without the necessity of any request by Agent, (a) copies of all environmental audits and reviews, (b) at least thirty (30) days prior thereto, notice of Borrower's or any of its Subsidiaries' opening of any new office or place of business or Borrower's or any of its Subsidiaries' closing of any existing office or place of business, and (c) promptly upon Borrower's or any of its Subsidiaries' learning thereof, notice of any labor dispute to which Borrower or any of its Subsidiaries 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 Borrower or any of its Subsidiaries is a party or by which Borrower or any of its Subsidiaries is bound.

9.13 Projected Operating Budget. Furnish Agent as soon as available but not more than thirty (30) days after Agent's request therefor, a quarter by quarter projected operating budget and cash flow of Borrower and its Subsidiaries for any fiscal year (including an income statement for each month and a balance sheet as at the end of the last month and cash flow projections in each fiscal quarter), such projections to be accompanied by a certificate signed by the Chief Executive Officer or Chief Financial Officer of Borrower.

9.14 Notice of Suits, Adverse Events. Furnish Agent with prompt notice of (a) any lapse or other termination of any Consent issued to Borrower or any of its Subsidiaries by any Governmental Body or any other Person that is material to the operation of Borrower's or any of its Subsidiaries' business, (b) any refusal by any Governmental Body or any other Person to renew or extend any such Consent; and (c) copies of any periodic or special reports filed by Borrower or any of its Subsidiaries or any of its Subsidiaries with any Governmental Body or Person, if such reports indicate any material change in the business, operations, affairs or condition of Borrower or any of its Subsidiaries, or if copies thereof are requested by Lender, and (d) copies of any material notices and other communications from any Governmental Body or Person which specifically relate to Borrower or any of its Subsidiaries.

9.15 ERISA Notices and Requests. Furnish Agent with immediate written notice in the event that (a) Borrower, any of its Subsidiaries or any member of the Controlled Group knows or has reason to know that a Termination Event has occurred, together with a written statement describing such Termination Event and the action, if any, which Borrower, any of its Subsidiaries or any member of the Controlled Group has taken, is taking, or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor or PBGC with respect thereto, (b) Borrower, any of its Subsidiaries or any member of the Controlled Group knows or has reason to know that a prohibited transaction (as defined in Sections 406 of ERISA and 4975 of the Code) has occurred together with a written statement describing such transaction and the action which Borrower, any of its Subsidiaries or any member of the Controlled Group has taken, is taking or proposes to take with respect thereto, (c) a funding waiver request has been filed with respect to any Plan together with all communications received by Borrower, any of its Subsidiaries or any member of the Controlled Group with respect to such request, (d) any increase in the benefits of any existing Plan or the establishment of any new Plan

or the commencement of contributions to any Plan to which Borrower, any of its Subsidiaries or any member of the Controlled Group was not previously contributing shall occur, (e) Borrower, any of its Subsidiaries or any member of the Controlled Group shall receive from the PBGC a notice of intention to terminate a Plan or to have a trustee appointed to administer a Plan, together with copies of each such notice, (f) Borrower, any of its Subsidiaries or any member of the Controlled Group shall receive any favorable or unfavorable determination letter from the Internal Revenue Service regarding the qualification of a Plan under Section 401(a) of the Code, together with copies of each such letter; (g) Borrower, any of its Subsidiaries or any member of the Controlled Group shall receive a notice regarding the imposition of withdrawal liability, together with copies of each such notice; (h) Borrower, any of its Subsidiaries or any member of the Controlled Group shall fail to make a required installment or any other required payment under Section 412 of the Code on or before the due date for such installment or payment; (i) Borrower, any of its Subsidiaries or any member of the Controlled Group knows that (A) a Multiemployer Plan has been terminated, (B) the administrator or plan sponsor of a Multiemployer Plan intends to terminate a Multiemployer Plan, or (C) the PBGC has instituted or will institute proceedings under Section 4042 of ERISA to terminate a Multiemployer Plan.

9.16 *Additional Documents.* Execute and deliver to Agent, upon request, such documents and agreements as Agent may, from time to time, reasonably request to carry out the purposes, terms or conditions of this Agreement.

X. EVENTS OF DEFAULT.

10.1 *Specified Events of Default.* The occurrence of any one or more of the following events shall constitute an “Event of Default”:

(a) failure by Borrower to pay any principal or interest on the Obligations when due (including the payment of excess Advances pursuant to Section 2.7 hereof), whether at maturity or by reason of acceleration pursuant to the terms of this Agreement or by notice of intention to prepay, or by required prepayment or failure to pay any other liabilities or make any other payment, fee or charge provided for herein when due or in any Other Document;

(b) any representation or warranty made or deemed made by Borrower or any of its Subsidiaries in this Agreement, any Other Document or any related agreement or in any certificate, document or financial or other statement furnished at any time in connection herewith or therewith shall prove to have been misleading in any material respect on the date when made or deemed to have been made;

(c) issuance of a notice of Lien (other than a Permitted Encumbrance), levy, assessment, injunction or attachment securing Indebtedness in excess of \$1,000,000 against a material portion of Borrower’s or any of its Subsidiaries’ property;

(d) except as otherwise provided for in subparagraphs (a) and (c), failure or neglect of Borrower or any of its Subsidiaries to perform, keep or observe any term, provision, condition, covenant herein contained, or contained in any Other Document, now or hereafter entered into between Borrower and Agent or any Lender (except for a failure or neglect of Borrower or any of its Subsidiaries to perform, keep or observe any term, provision, condition or covenant, contained in Sections 4.6, 4.7, 4.9, 6.1, 6.3, 6.4, 9.4 or 9.6 hereof) for which no cure period is applicable or which is not cured within thirty (30) days from the occurrence of such failure or neglect;

(e) any judgment or judgments are rendered or judgment liens filed against Borrower or any of its Subsidiaries for an aggregate amount in excess of \$1,000,000 which within thirty (30) days of such rendering or filing is not either satisfied, stayed or discharged of record;

(f) Borrower or any of its Subsidiaries shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of creditors, (iii) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (iv) be adjudicated a bankrupt or insolvent, (v) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vi) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (vii) take any action for the purpose of effecting any of the foregoing;

(g) Borrower or any of its Subsidiaries ceases to be solvent or shall admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business;

(h) any Subsidiary of Borrower, or any Guarantor, shall (i) apply for, consent to or suffer the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or similar fiduciary of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as they become due or cease operations of its present business, (iii) make a general assignment for the benefit of creditors, (iv) commence a voluntary case under any state or federal bankruptcy laws (as now or hereafter in effect), (v) be adjudicated a bankrupt or insolvent, (vi) file a petition seeking to take advantage of any other law providing for the relief of debtors, (vii) acquiesce to, or fail to have dismissed, within thirty (30) days, any petition filed against it in any involuntary case under such bankruptcy laws, or (viii) take any action for the purpose of effecting any of the foregoing;

(i) any change in Borrower's or any of its Subsidiaries' condition or affairs (financial or otherwise) which has a Material Adverse Effect;

(j) any Lien created hereunder or provided for hereby or under any related agreement for any reason ceases to be or is not a valid and perfected Lien having a first priority interest except purchase money security interests permitted by Section 7.2 hereof (other than Permitted Liens);

(k) an event of default has occurred and been declared under (i) the Permitted Vendor Debt or (ii) the Subordinated Debt Documentation, which default shall not have been cured or waived within any applicable grace period and for which any lender therein is permitted to take action thereunder;

(l) default of the obligations of Borrower or any Guarantor under any other agreement to which it is a party shall occur which materially and adversely affects its condition, affairs or prospects (financial or otherwise) which default is not cured within any applicable grace period;

(m) termination or breach of any Guaranty or similar agreement executed and delivered to Agent in connection with the Obligations of Borrower or any of its Subsidiaries, or if any Guarantor attempts to terminate, challenges the validity of, or its liability under, any such Guaranty or similar agreement;

(n) termination or breach of any Guaranty or similar agreement executed and delivered to Agent in connection with the Obligations of Borrower, or if any Guarantor attempts to terminate, challenges the validity of, or its liability under, any such Guaranty or similar agreement;

(o) any Change of Control shall occur;

(p) any material provision of this Agreement or any Other Agreement shall, for any reason, cease to be valid and binding on Borrower, or Borrower shall so claim in writing to Agent;

(q) (i) any Governmental Body shall revoke, terminate, suspend or adversely modify any license, permit, patent trademark or tradename of Borrower or any of its Subsidiaries necessary for its operations, or (ii) any agreement which is necessary or material to the operation of Borrower's or any of its Subsidiaries business shall be revoked or terminated and not replaced by a substitute acceptable to Agent within thirty (30) days after the date of such revocation or termination, and such revocation or termination and non-replacement would reasonably be expected to have a Material Adverse Effect;

(r) any portion of the Collateral having an aggregate value in excess of \$500,000 shall be seized or taken by a Governmental Body, or Borrower or any Guarantor or the title and rights of Borrower or any of its Subsidiaries shall have become the subject matter of litigation which might, in the reasonable judgment of Agent, upon final determination, result in impairment or loss of the security provided by this Agreement or the Other Documents;

(s) an event or condition specified in Sections 7.16 or 9.16 hereof shall occur or exist with respect to any Plan and, as a result of such event or condition, together with all other such events or conditions, Borrower or any of its Subsidiaries or any member of the Controlled Group shall incur, or in the opinion of Agent be reasonably likely to incur, a liability to a Plan or the PBGC (or both) which, in the reasonable judgment of Agent, would have a Material Adverse Effect; or

(t) (i) failure of Borrower or any of its Subsidiaries to pay when due or within any applicable grace period any principal or interest on Indebtedness or any contingent obligations or (ii) breach or default of Borrower or any of its Subsidiaries or the occurrence of any condition or event, with respect to any Indebtedness or any contingent obligations if the effect of such failure to pay, breach, default or occurrence is to cause or to permit the holder or holders then to cause, such Indebtedness and/or contingent obligations having an individual principal amount in excess of \$1,000,000; or

(u) termination of an existing Blocked Account Agreement by a third party bank party thereto that results in the termination of the Agent's control over the cash proceeds in a Blocked Account.

XI. LENDERS' RIGHTS AND REMEDIES AFTER DEFAULT.

11.1 *Rights and Remedies.* Upon the occurrence of (a) an Event of Default pursuant to Sections 10.1(f) or (h) all Obligations shall be immediately due and payable and this Agreement and the obligation of Lenders to make Advances shall be deemed terminated; and, (b) any of the other Events of Default and at any time thereafter (such default not having previously been cured), and (c) a filing of a petition against Borrower or any Guarantor in any involuntary case under any state or federal bankruptcy laws, the obligation of Lenders to make Advances hereunder shall be terminated other than as may be required by an appropriate order of the bankruptcy court having jurisdiction over Borrower or the applicable Guarantor and in each case at the option of the Agent in its discretion or upon written directions to do so from the Required Lenders all Obligations shall be immediately due and payable and Lenders shall have the right to terminate this Agreement and to terminate the obligation of Lenders to make Advances. Upon the occurrence and the continuance of any Event of Default and upon ten (10) days prior written notice from the Agent to the Borrower (except with respect to the Agent's and Lenders' right of setoff hereunder the exercise of which may be at any time after a Default and without any notice to the Borrower), Agent shall have the right to exercise any and all other rights and remedies provided for herein, under the Uniform Commercial Code and at law or equity generally, including, without limitation, the right to foreclose the security interests granted herein and to realize upon any Collateral by any available judicial procedure and/or to take possession of and sell any or all of the Collateral with or without judicial process. During the continuance of an Event of Default and upon ten (10) days written notice by the Agent to the Borrower, Agent may enter any of Borrower's or any Guarantor's premises or other premises without legal process and without incurring liability to Borrower or the applicable Subsidiary therefor, and Agent may thereupon, or at any time thereafter, in its discretion without notice or demand, take the Collateral and remove the same to such place as Agent may deem advisable and Agent may require Borrower or the applicable Guarantor to make the Collateral available to Agent at a convenient place. With or without having the Collateral at the time or place of sale, Agent may sell the Collateral, or any part thereof, at public or private sale, at any time or place, in one or more sales, at such price or prices, and upon such terms, either for cash, credit or future delivery, as is commercially reasonable. Except as to that part of the Collateral which is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market,

Agent shall give Borrower reasonable notification of such sale or sales, it being agreed that in all events written notice mailed to Borrower at least ten (10) days prior to such sale or sales is reasonable notification. At any public sale Agent or any Lender may bid for and become the purchaser, and Agent, any Lender or any other purchaser at any such sale thereafter shall hold the Collateral sold absolutely free from any claim or right of whatsoever kind, including any equity of redemption and such right and equity are hereby expressly waived and released by Borrower and each Guarantor. In connection with the exercise of the foregoing remedies, Agent is granted permission to use all of Borrower's and each Guarantor's (a) trademarks, trade styles, trade names, patents, patent applications, licenses, franchises and other proprietary rights which are used in connection with Inventory for the purpose of disposing of such Inventory and (b) Equipment for the purpose of completing the manufacture of unfinished goods. The proceeds realized from the sale of any Collateral shall be applied in the order set forth in Section 11.5 hereof. If any deficiency shall arise, Borrower and each of its Subsidiaries shall remain liable to Agent and Lenders therefor. Upon the occurrence of any Event of Default, Agent shall have the right to appoint a receiver on behalf of Borrower or the applicable Subsidiary.

11.2 *Agent's Discretion.* Agent shall have the right in its sole discretion to determine which rights, Liens, security interests or remedies Agent may at any time pursue, relinquish, subordinate, or modify or to take any other action with respect thereto and such determination will not in any way modify or affect any of Agent's or Lenders' rights hereunder.

11.3 *Setoff.* Notwithstanding any provision on this Agreement or any Other Document, in addition to any other rights which Agent or any Lender may have under applicable law, upon the occurrence and during the continuance of an Event of Default hereunder, Agent and such Lender shall have a right without notice to Borrower or any Guarantor to apply Borrower's or any Guarantor's property held by Agent and such Lender to reduce the Obligations.

11.4 *Rights and Remedies not Exclusive.* The enumeration of the foregoing rights and remedies is not intended to be exhaustive and the exercise of any rights or remedy shall not preclude the exercise of any other right or remedies provided for herein or otherwise provided by law, all of which shall be cumulative and not alternative.

11.5 *Allocation of Payments After Event of Default.* Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Agent on account of the Obligations or any other amounts outstanding under any of the Other Documents or in respect of the Collateral may, at Agent's discretion, be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees and fees of other professionals) of the Agent in

connection with enforcing its rights and the rights of the Lenders under this Agreement and the Other Documents and any protective advances made by the Agent with respect to the Collateral under or pursuant to the terms of this Document;

SECOND, to payment of any fees owed to the Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees and fees of other professionals) of each of the Lenders in connection with enforcing its rights under this Agreement and the Other Documents or otherwise with respect to the Obligations owing to such Lender;

FOURTH, to the payment of all of the Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Obligations (including the payment or cash collateralization of any outstanding Letters of Credit);

SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Other Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above;

SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus including the Borrower.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive (so long as it is not a Defaulting Lender) an amount equal to its pro rata share (based on the proportion that the then outstanding Advances held by such Lender bears to the aggregate then outstanding Advances) of amounts available to be applied pursuant to clauses "FOURTH", "FIFTH," "SIXTH" and "SEVENTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by the Agent in a cash collateral account and applied (A) first, to reimburse the Issuer from time to time for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other obligations of the types described in clauses "FIFTH" and "SIXTH" above in the manner provided in this Section 11.5.

XII. WAIVERS AND JUDICIAL PROCEEDINGS.

12.1 *Waiver of Notice.* Borrower and each of its Subsidiaries hereby waive notice of non-payment of any of the Receivables, demand, presentment, protest and notice thereof with respect to any and all instruments, notice of acceptance hereof, notice of loans or advances made, credit extended, Collateral received or delivered, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein or any Other Document.

12.2 *Delay.* No delay or omission on Agent's or any Lender's part in exercising any right, remedy or option shall operate as a waiver of such or any other right, remedy or option or of any default.

12.3 *Jury Waiver.* EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (A) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR (B) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith, OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE AND EACH PARTY HEREBY CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENTS OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

XIII. EFFECTIVE DATE AND TERMINATION.

13.1 *Term.* This Agreement shall become effective on the date hereof and shall continue in full force and effect until February 24, 2017 (the "Term") unless sooner terminated as herein provided. Borrower may terminate this Agreement at any time upon prior written notice to the Agent and the Lenders and payment in full of the Obligations.

13.2 *Termination.* The termination of the Agreement shall not affect Borrower's, Agent's or any Lender's rights, or any of the Obligations having their inception either prior to or after the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into, rights or interests created or Obligations have been fully disposed of, concluded or liquidated. The security interests, Liens and rights granted to Agent and Lenders hereunder and the financing statements filed hereunder shall continue in full force and effect, notwithstanding the termination of this Agreement or the fact that Borrower's Account may from time to time be temporarily in a zero or credit position, until all of the Obligations of Borrower have been paid or performed in full after the termination of this Agreement or Borrower has furnished Agent and Lenders with an indemnification satisfactory to Agent and Lenders with respect thereto. Accordingly, Borrower waives any rights which it may have under the Uniform Commercial Code to demand the filing of termination statements with respect to the Collateral, and Agent

shall not be required to send such termination statements to Borrower, or to file them with any filing office, unless and until this Agreement shall have been terminated in accordance with its terms and all Obligations paid in full in immediately available funds. All representations, warranties, covenants, waivers and agreements contained herein shall survive termination hereof until all Obligations are paid or performed in full.

XIV. REGARDING AGENT.

14.1 *Appointment.* Each Lender hereby designates Citizens to act as Agent for such Lender under this Agreement and the Other Documents. Each Lender hereby irrevocably authorizes Agent to take such action on its behalf under the provisions of this Agreement and the Other Documents and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto and Agent shall hold all Collateral, payments of principal and interest, fees (except the fees set forth in Sections 3.4), charges and collections (without giving effect to any collection days) received pursuant to this Agreement, for the ratable benefit of Lenders. Agent may perform any of its duties hereunder by or through its agents or employees. As to any matters not expressly provided for by this Agreement (including without limitation, collection of the Note) Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding; provided, however, that Agent shall not be required to take any action which exposes Agent to liability or which is contrary to this Agreement or the Other Documents or applicable law unless Agent is furnished with an indemnification reasonably satisfactory to Agent with respect thereto.

14.2 *Nature of Duties.* Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and the Other Documents. Neither Agent nor any of its officers, directors, employees or agents shall be (i) liable for any action taken or omitted by them as such hereunder or in connection herewith, unless caused by their gross (not mere) negligence or willful misconduct, or (ii) responsible in any manner for any recitals, statements, representations or warranties made by Borrower or any of its Subsidiaries or any officer thereof contained in this Agreement, or in any of the Other Documents or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any of the Other Documents or for the value, validity, effectiveness, genuineness, due execution, enforceability or sufficiency of this Agreement, or any of the Other Documents or for any failure of Borrower or any of its Subsidiaries to perform its obligations hereunder. Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any of the Other Documents, or to inspect the properties, books or records of Borrower and each of its Subsidiaries. The duties of Agent as respects the Advances to Borrower shall be mechanical and administrative in nature; Agent shall not have by reason of this Agreement a fiduciary relationship in respect of any Lender; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon Agent any obligations in respect of this Agreement except as expressly set forth herein.

14.3 Lack of Reliance on Agent and Resignation. Independently and without reliance upon Agent or any other Lender, each Lender has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of Borrower and its Subsidiaries in connection with the making and the continuance of the Advances hereunder and the taking or not taking of any action in connection herewith, and (ii) its own appraisal of the creditworthiness of Borrower. Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Lender with any credit or other information with respect thereto, whether coming into its possession before making of the Advances or at any time or times thereafter except as shall be provided by Borrower pursuant to the terms hereof. Agent shall not be responsible to any Lender for any recitals, statements, information, representations or warranties herein or in any agreement, document, certificate or a statement delivered in connection with or for the execution, effectiveness, genuineness, validity, enforceability, collectibility or sufficiency of this Agreement or any Other Document, or of the financial condition of Borrower or any of its Subsidiaries, or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement, the Note, the Other Documents or the financial condition of Borrower or any of its Subsidiaries, or the existence of any Event of Default or any Default.

Agent may resign on ten (10) days' written notice to each of Lenders and Borrower and upon such resignation, the Required Lenders will promptly designate a successor Agent reasonably satisfactory to Borrower.

Any such successor Agent shall succeed to the rights, powers and duties of Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent. After any Agent's resignation as Agent, the provisions of this Article XIV shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

14.4 Certain Rights of Agent. If Agent shall request instructions from Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any Other Document, Agent shall be entitled to refrain from such act or taking such action unless and until Agent shall have received instructions from the Required Lenders; and Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, Lenders shall not have any right of action whatsoever against Agent as a result of its acting or refraining from acting hereunder in accordance with the instructions of the Required Lenders.

14.5 Reliance. Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telecopier message, cablegram, order

or other document or telephone message reasonably believed by it to be genuine and correct and to have been signed, sent or made by the proper person or entity, and, with respect to all legal matters pertaining to this Agreement and the Other Documents and its duties hereunder, upon advice of counsel selected by it. Agent may employ agents and attorneys-in-fact and shall not be liable for the default or misconduct of any such agents or attorneys-in-fact selected by Agent with reasonable care.

14.6 *Notice of Default.* Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder or under the Other Documents, unless Agent has received notice from a Lender or Borrower referring to this Agreement or the Other Documents, describing such Default or Event of Default and stating that such notice is a “notice of default”. In the event that Agent receives such a notice, Agent shall give notice thereof to Lenders. Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided, that, unless and until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of Lenders.

14.7 *Indemnification.* To the extent Agent is not reimbursed and indemnified by Borrower, each Lender will reimburse and indemnify Agent in proportion to its respective portion of the Advances (or, if no Advances are outstanding, according to its Commitment Percentage), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against Agent in performing its duties hereunder, or in any way relating to or arising out of this Agreement or any Other Document; provided that, Lenders shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from Agent’s gross (not mere) negligence or willful misconduct.

14.8 *Agent in its Individual Capacity.* With respect to the obligation of Agent to lend under this Agreement, the Advances made by it shall have the same rights and powers hereunder as any other Lender and as if it were not performing the duties as Agent specified herein; and the term “Lender” or any similar term shall, unless the context clearly otherwise indicates, include Agent in its individual capacity as a Lender. Agent may engage in business with Borrower as if it were not performing the duties specified herein, and may accept fees and other consideration from Borrower for services in connection with this Agreement or otherwise without having to account for the same to Lenders.

14.9 Delivery of Documents. To the extent Agent receives financial statements required under Sections 9.7, 9.8, 9.11, 9.12 and 9.13 from Borrower pursuant to the terms of this Agreement, Agent will promptly furnish such documents and information to Lenders.

14.10 Borrower's Undertaking to Agent. Without prejudice to its obligations to Lenders under the other provisions of this Agreement, Borrower hereby undertakes with Agent to pay to Agent from time to time on demand all amounts from time to time due and payable by it for the account of Agent or Lenders or any of them pursuant to this Agreement to the extent not already paid. Any payment made pursuant to any such demand shall pro tanto satisfy the relevant Borrower's obligations to make payments for the account of Lenders or the relevant one or more of them pursuant to this Agreement.

14.11 Amendment of Article 14. Borrower agrees that the foregoing provisions of this Article 14 constitute an agreement among the Agent and the Lenders (and the Agent and the Lenders acknowledge that except for the provisions of Section 14.3, Borrower is not a party to or bound by such foregoing provisions) and that any and all of the provisions of this Article 14, with the exception of the reasonable approval of Borrower as may be required under Section 14.3 hereto, may be amended at any time by the Lenders without the consent or approval of, or notice to, Borrower (other than the requirement of notice to Borrower of the resignation of the Agent and the appointment of a successor Agent).

14.12 Additional Rights of Agent. The parties hereto agree that no amendment, waiver, consent or other action under this Agreement will be taken that adversely affects Agent, unless Agent shall have consented in writing to such amendment, waiver, consent or other action.

XV. MISCELLANEOUS.

15.1 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts applied to contracts to be performed wholly within the Commonwealth of Massachusetts. Any judicial proceeding brought by or against Borrower with respect to any of the Obligations, this Agreement, the Other Documents or any related agreement may be brought in any court of competent jurisdiction in the Commonwealth of Massachusetts, United States of America, and, by execution and delivery of this Agreement, Borrower accepts for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. Borrower hereby waives personal service of any and all process upon it and consents that all such service of process may be made by registered mail (return receipt requested) directed to Borrower at its address set forth in Section 15.6 and service so made shall be deemed completed five (5) days after the same shall have been so deposited in the mails of the United States of America. Nothing herein shall affect the right to serve process

in any manner permitted by law or shall limit the right of Agent or any Lender to bring proceedings against Borrower in the courts of any other jurisdiction. Borrower waives any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon forum non conveniens. Borrower waives the right to remove any judicial proceeding brought against Borrower in any state court to any federal court. Any judicial proceeding by Borrower against Agent or any Lender involving, directly or indirectly, any matter or claim in any way arising out of, related to or connected with this Agreement or any related agreement, shall be brought only in a federal or state court located in the County of Suffolk, Commonwealth of Massachusetts.

15.2 *Entire Understanding.*

(a) This Agreement and the documents executed concurrently herewith contain the entire understanding between Borrower, Agent and each Lender and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. Any promises, representations, warranties or guarantees not herein contained and hereinafter made shall have no force and effect unless in writing, signed by Borrower's, Agent's and each Lender's respective officers. Neither this Agreement nor any portion or provisions hereof may be changed, modified, amended, waived, supplemented, discharged, cancelled or terminated orally or by any course of dealing, or in any manner other than by an agreement in writing, signed by the party to be charged. Borrower acknowledges that it has been advised by counsel in connection with the execution of this Agreement and Other Documents and is not relying upon oral representations or statements inconsistent with the terms and provisions of this Agreement.

(b) The Required Lenders, Agent with the consent in writing of the Required Lenders, and Borrower may, subject to the provisions of this Section 15.2 (b), from time to time enter into written supplemental agreements to this Agreement or the Other Documents executed by Borrower, for the purpose of adding or deleting any provisions or otherwise changing, varying or waiving in any manner the rights of Lenders, Agent or Borrower thereunder or the conditions, provisions or terms thereof of waiving any Event of Default hereunder or thereunder, but only to the extent specified in such written agreements; provided, however, that no such supplemental agreement shall, without the consent of all Lenders:

- (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 decrease the rate of interest or reduce any fee 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) having an aggregate value in excess of \$250,000;

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- (v) change the rights and duties of Agent; or
 - (vi) release any Guarantor.

Any such supplemental agreement shall apply equally to each Lender and shall be binding upon Borrower, Lenders and Agent and all future holders of the Obligations. In the case of any waiver, Borrower, Agent and Lenders shall be restored to their former positions and rights, and any Event of Default waived shall be deemed to be cured and not continuing, but no waiver of a specific Event of Default shall extend to any subsequent Event of Default (whether or not the subsequent Event of Default is the same as the Event of Default which was waived), or impair any right consequent thereon.

In the event that Agent requests the consent of a Lender pursuant to this Section 15.2 and such Lender shall not respond or reply to Agent in writing within five (5) days of delivery of such request, such Lender shall be deemed to have consented to the matter that was the subject of the request. In the event that Agent requests the consent of a Lender pursuant to this Section 15.2 and such consent is denied, then Agent may, at its option, require such Lender to assign its interest in the Advances to Agent or to another Lender or to any other Person designated by the Agent (the "Designated Lender"), for a price equal to the then outstanding principal amount thereof plus accrued and unpaid interest and fees due such Lender, which interest and fees shall be paid when collected from Borrower. In the event Agent elects to require any Lender to assign its interest to Agent or to the Designated Lender, Agent will so notify such Lender in writing within forty five (45) days following such Lender's denial, and such Lender will assign its interest to Agent or the Designated Lender no later than five (5) days following receipt of such notice pursuant to a Commitment Transfer Supplement executed by such Lender, Agent or the Designated Lender, as appropriate, and Agent.

15.3 Successors and Assigns; Participations; New Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of Borrower, Agent, each Lender, all future holders of the Obligations and their respective successors and assigns, except that Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of Agent and each Lender.

(b) Borrower acknowledges that in the regular course of commercial banking business one or more Lenders may at any time and from time to time sell participating interests in the Advances to other financial institutions (each such transferee or purchaser of a participating interest, a "Transferee"). Each Transferee may exercise all rights of payment (including without limitation rights of set-off) with respect to the portion of such Advances held by it or other Obligations payable hereunder as fully as if such Transferee were the direct holder thereof provided that Borrower shall not be required to pay to any Transferee more than the amount which it would have been required to pay to Lender which granted an interest in its Advances or other Obligations payable hereunder to such Transferee had such Lender retained such interest in the Advances hereunder or other Obligations payable hereunder and in no event shall Borrower be required to pay any such amount arising from the same circumstances and with respect to the same Advances or other Obligations payable hereunder to both such Lender and such Transferee. Borrower and each of its Subsidiaries hereby grant to any Transferee a continuing security interest in any deposits, moneys or other property actually or constructively held by such Transferee as security for the Transferee's interest in the Advances.

(c) Any Lender may with the consent of Agent and Borrower which consent shall not be unreasonably withheld or delayed sell, assign or transfer all or any part of its rights under this Agreement and the Other Documents to one or more additional banks or financial institutions and one or more additional banks or financial institutions may commit to make Advances hereunder (each a "Purchasing Lender"), in minimum amounts of not less than \$5,000,000 (or, if less, the entire interest of such transferring Lender), pursuant to a Commitment Transfer Supplement, executed by a Purchasing Lender, the transferor Lender, and Agent and delivered to Agent for recording, provided that the Borrower's consent to any such sale, assignment or transfer shall not be required upon an Event of Default and during the continuance thereof. Upon such execution, delivery, acceptance and recording, from and after the transfer effective date determined pursuant to such Commitment Transfer Supplement, (i) Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder with a Commitment Percentage as set forth therein, and (ii) the transferor Lender thereunder shall, to the extent provided in such Commitment Transfer Supplement, be released from its obligations under this Agreement, the Commitment Transfer Supplement creating a novation for that purpose. Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Borrower hereby consents to the addition of such Purchasing Lender and the resulting adjustment of the Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Other Documents. Borrower and each of its Subsidiaries shall execute and deliver such further documents and do such further acts and things in order to effectuate the foregoing.

(d) Agent shall maintain at its address a copy of each Commitment Transfer Supplement delivered to it and a register (the "Register") for the recordation of the names and addresses of each Lender and the outstanding principal, accrued and unpaid interest and other fees due hereunder. The entries in the Register shall be conclusive, in the absence of manifest error, and Borrower, Agent and Lenders may treat each Person whose name is recorded in the Register as the owner of the Advance recorded therein for the purposes of this Agreement. The Register shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice. Agent shall receive a fee in the amount of \$3,500 payable by the applicable Purchasing Lender upon the effective date of each transfer or assignment to such Purchasing Lender.

(e) Borrower authorizes each Lender to disclose to any Transferee or Purchasing Lender and any prospective Transferee or Purchasing Lender any and all financial information in such Lender's possession concerning Borrower which has been delivered to such Lender by or on behalf of Borrower pursuant to this Agreement or in connection with such Lender's credit evaluation of Borrower provided that Agent consistent with its past practices obtains an agreement from such Transferee or Purchasing Lender to keep such information confidential.

(f) Each Lender authorizes Agent to transmit a borrowing request of Borrower to the Lenders electronically.

15.4 *Application of Payments.* Agent shall have the continuing and exclusive right to apply or reverse and re-apply any payment and any and all proceeds of Collateral to any portion of the Obligations. To the extent that Borrower makes a payment or Agent or any Lender receives any payment or proceeds of the Collateral for Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by Agent or such Lender.

15.5 *Indemnity.* Borrower and each of its Subsidiaries shall indemnify Agent, each Lender and each of their respective officers, directors, Affiliates, attorneys, employees and agents from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever (including, without limitation, fees and disbursements of counsel) which may be imposed on, incurred by, or asserted against Agent or any Lender in any litigation, proceeding or investigation instituted or conducted by any governmental agency or instrumentality or any other Person with respect to any aspect of, or any transaction contemplated by, or referred to in, or any matter related to, this Agreement or the Other Documents, whether or not Agent or any Lender is a party thereto, except to the extent that any of the foregoing arises out of the willful misconduct of the party being indemnified.

15.6 *Notice.* Any notice or request hereunder may be given to Borrower or to Agent or any Lender at their respective addresses set forth below or at such other address as may hereafter be specified in a notice designated as a notice of change of address under this Section. Any notice, request, demand, direction or other communication (for purposes of this Section 15.6 only, a "Notice") to be given to or made upon any party hereto under any provision of this Loan Agreement shall be given or made by telephone or in writing (which includes by means of electronic transmission (i.e., "e-mail") or facsimile transmission in accordance with this Section 15.6. Any such Notice must be delivered to the applicable parties hereto at the addresses and numbers set forth under their respective names on Section 15.6 hereof or in accordance with any subsequent unrevoked Notice from any such party that is given in accordance with this Section 15.6. Any Notice shall be effective:

(a) In the case of hand-delivery, when delivered;

(b) If given by mail, four days after such Notice is deposited with the United States Postal Service, with first-class postage prepaid, return receipt requested;

(c) In the case of a telephonic Notice, when a party is contacted by telephone, if delivery of such telephonic Notice is confirmed no later than the next Business Day by hand delivery, a facsimile or electronic transmission or an overnight courier delivery of a confirmatory Notice (received at or before noon on such next Business Day);

(d) In the case of a facsimile transmission, when sent to the applicable party's facsimile machine's telephone number, if the party sending such Notice receives confirmation of the delivery thereof from its own facsimile machine;

(e) In the case of electronic transmission, when actually received; and

(f) If given by any other means (including by overnight courier), when actually received.

Any Lender giving a Notice to Borrower shall concurrently send a copy thereof to the Agent, and the Agent shall promptly notify the other Lenders of its receipt of such Notice.

(A) If to Agent or
Citizens at: RBS Citizens, N.A.
Corporate Banking
331 Montvale Avenue
Woburn, Massachusetts 01801
Attention: Marc Lubelczyk
Telephone: (781) 665-7622

with a copy to: Proskauer Rose LLP
One International Place
Boston, Massachusetts 02110
Attention: Gary J. Creem, Esq.
Telephone: (617) 526-9637
Facsimile: (617) 526-9899

(B) If to a Lender other than Agent, as specified on the signature pages hereof

(C) If to Borrower
or any
Guarantor: PC Connection, Inc.
Route 101A (730 Milford Road)
Merrimack, New Hampshire 03054
Attention: Chief Financial Officer
Telephone: (603) 423-2156
Facsimile: (603) 423-2283

with a copy to: Wilmer Cutler Pickering Hale and Dorr LLP
60 State Street
Boston, Massachusetts 02109
Attention: Mitchel Appelbaum
Telephone: (617) 526-6000
Telecopier: (617) 526-5000

15.7 *Survival.* The obligations of Borrower or any of its Subsidiaries, as applicable, under Sections 2.2(f), 3.7, 3.8, 3.9, 4.19(h), 14.7, 15.1, 15.5 and 15.10 shall survive termination of this Agreement and the Other Documents and payment in full of the Obligations.

15.8 *Severability.* If any part of this Agreement is contrary to, prohibited by, or deemed invalid under applicable laws or regulations, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder hereof shall not be invalidated thereby and shall be given effect so far as possible.

15.9 *Expenses.* All reasonable costs and expenses including, without limitation, reasonable attorneys' fees (including the allocated costs of in house counsel) and disbursements incurred by Agent on its behalf or on behalf of Lenders and Lenders (a) in connection with the syndication, preparation, execution, delivery, administration, modification and amendment of this Agreement or any Other Documents (whether or not they close), (b) in all efforts made to enforce payment of any Obligation or effect collection of any Collateral, or (c) in connection with the negotiation, execution, modification, extension, amendment, administration and enforcement of this Agreement or any consents or waivers hereunder and all related agreements, documents and instruments (whether or not they close), or (d) in instituting, maintaining, preserving, enforcing and foreclosing on Agent's security interest in or Lien on any of the Collateral, whether through judicial proceedings or otherwise, or (e) in defending or prosecuting any actions or proceedings arising out of or relating to Agent's or any Lender's transactions with Borrower, or (f) in connection with any advice given to Agent or any Lender with respect to its rights and obligations under this Agreement and all related agreements, may be charged to Borrower's Account and shall be part of the Obligations, other than costs or expenses incurred by the Agent or Lender as a result of the gross negligence or willful misconduct of such Agent or Lender.

15.10 *Injunctive Relief.* Borrower recognizes that, in the event Borrower fails to perform, observe or discharge any of its obligations or liabilities under this Agreement, any remedy at law may prove to be inadequate relief to Lenders; therefore, Agent, if Agent so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving that actual damages are not an adequate remedy.

15.11 Consequential Damages. Neither Agent nor any Lender, nor any agent or attorney for any of them, shall be liable to Borrower for consequential damages (whether direct or indirect) or special damages arising from any breach of contract, tort or other claim relating to the establishment, administration or collection of the Obligations.

15.12 Captions. The captions at various places in this Agreement are intended for convenience only and do not constitute and shall not be interpreted as part of this Agreement.

15.13 Counterparts; Facsimile Signatures. This Agreement may be executed in any number of and by different parties hereto on separate counterparts, all of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

15.14 Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments, schedules or exhibits thereto.

15.15 Confidentiality; Sharing Information. Agent, each Lender, each Transferee and each potential Transferee shall hold all non-public information obtained by Agent, such Lender or such Transferee pursuant to the requirements of this Agreement in accordance with Agent's, such Lender's and such Transferee's customary procedures for handling confidential information of this nature; provided, however, Agent, each Lender and each Transferee may disclose such confidential information (i) to its examiners, affiliates, outside auditors, counsel and other professional advisors and rating agencies, (ii) to Agent, any Lender or to any prospective Transferee or Purchasing Lender, and (iii) as required or requested by any Governmental Body or representative thereof or pursuant to legal or regulatory process or inquiry; provided, further that (x) unless specifically prohibited by applicable law or court order, Agent, each Lender and each Transferee shall use its best efforts prior to disclosure thereof, to notify Borrower of the applicable request for disclosure of such non-public information (A) by a Governmental Body or representative thereof (other than any such request in connection with an examination of the financial condition of a Lender or a Transferee by such Governmental Body or any regulatory review) or (B) pursuant to legal process and (y) in no event shall Agent, any Lender or any Transferee be obligated to return any materials furnished by Borrower other than those documents and instruments in possession of Agent or any Lender in order to perfect its Lien on the Collateral once the Obligations have been paid in full and this Agreement has been terminated.

15.16 *Publicity*. Borrower and each Lender hereby authorizes Agent to make appropriate announcements of the financial arrangement entered into among Borrower, Agent and Lenders, including, without limitation, announcements which are commonly known as tombstones, in such publications and to such selected parties as Agent shall in its sole and absolute discretion deem appropriate.

15.17 *Other Document*. Borrower agrees and acknowledges that to the extent any provision of this Agreement is inconsistent with any provisions of any Other Documents (other than the LMCS Agreement), this Agreement shall govern.

15.18 *Assignment to Federal Reserve*. 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.

[Signature page to follow]

Each of the parties has signed this Second Amended and Restated Revolving Credit and Security Agreement under seal as of the day and year first above written.

PC CONNECTION, INC.,
as Borrower

By: /S/ JACK FERGUSON
Name: Jack Ferguson
Title: Executive VP, Treasurer and CFO

GOVCONNECTION, INC.,
as Guarantor

By: /S/ GARY ANDERSON
Name: Gary Anderson
Title: Treasurer

PC CONNECTION SALES CORPORATION,
as Guarantor

By: /S/ GARY ANDERSON
Name: Gary Anderson
Title: Treasurer

PROFESSIONAL COMPUTER CENTER, INC.,
as Guarantor

By: /S/ GLYNN SCHULZE
Name: Glynn Schulze
Title: Treasurer

MOREDIRECT, INC.,
as Guarantor

By: /S/ GARY ANDERSON
Name: Gary Anderson
Title: Treasurer

RBS CITIZENS BANK, N.A.,
as Lender and as Agent

By: /S/ MARC LUBELCZYK
Name: Marc Lubelczyk
Title: Senior Vice President

Corporate Banking
331 Montvale Avenue
Woburn, Massachusetts 01801

Commitment Percentage: 100%

STATE OF NEW HAMPSHIRE)

) ss.

COUNTY OF HILLSBOROUGH)

On this 23rd day of February, 2012, before me personally came Jack L. Ferguson, to me known, who, being by me duly sworn, did depose and say that he is the Executive Vice President, Chief Financial Officer and Treasurer 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, New Hampshire this 23rd day of February, 2012.

Notary Public Dolores R. Collins

My Commission Expires: October 22, 2013

FOURTH AMENDED AND RESTATED REVOLVING CREDIT NOTE

\$50,000,000.00

February 24, 2012

FOR VALUE RECEIVED, the undersigned PC CONNECTION, INC., a corporation organized under the laws of the State of Delaware (hereinafter, together with its successors in title and assigns, collectively called the "Borrower"), by this promissory note (hereinafter, called "this Note"), absolutely and unconditionally promises to pay to the order of RBS CITIZENS, N.A., successor by merger to Citizens Bank of Massachusetts (hereinafter, together with its successors in title and assigns, called the "Lender"), the principal sum of FIFTY MILLION DOLLARS (\$50,000,000.00) or so much thereof as shall have been advanced by the Lender to the Borrower by way of Revolving Advances under the Loan Agreement (as hereinafter defined) and shall remain outstanding, such payment to be made as hereinafter provided, and to pay interest on the principal sum outstanding hereunder from time to time from the date hereof until the said principal sum or the unpaid portion thereof shall have become due and payable as hereinafter provided.

Capitalized terms used herein without definition shall have the meanings set forth in the Loan Agreement.

The unpaid principal (not at the time overdue) under this Note shall bear interest at the rate or rates from time to time in effect under the Loan Agreement. Accrued interest on the unpaid principal under this Note shall be payable on the dates specified in the Loan Agreement.

On February 24, 2017, the date of the final maturity of this Note, there shall become absolutely due and payable by the Borrower hereunder, and the Borrower hereby promises to pay to the Lender, the balance (if any) of the principal hereof then remaining unpaid, all of the unpaid interest accrued hereon and all (if any) other amounts payable on or in respect of this Note or the indebtedness evidenced hereby.

The Borrower authorizes the Lender to make or cause to be made at or about the time of any Revolving Advance or at the time of receipt of any payment of principal of this Note, an appropriate notation on the Schedule annexed hereto reflecting the making of such Revolving Advance or the receipt of such payment. The outstanding amount of the Revolving Advance set forth on the Schedule annexed hereto shall be prima facie evidence of the principal amount thereof owing and unpaid to the Lender, but the failure to record, or any error in so recording, any such amount on the Schedule shall not limit or otherwise affect the obligations of the Borrower hereunder or under the Loan Agreement to make payments of principal of and interest on this Note when due.

Each overdue amount (whether of principal, interest or otherwise) payable on or in respect of this Note or the indebtedness evidenced hereby shall (to the extent permitted by applicable law) bear interest at the rates and on the terms provided by the Loan Agreement.

Each payment of principal, interest or other sum payable on or in respect of this Note or the indebtedness evidenced hereby shall be made by the Borrower in United States Dollars, for the account of the Lender as set forth in the Loan Agreement, on the due date of such payment, and in immediately available and freely transferable funds. All payments on or in respects of this Note or the indebtedness evidenced hereby shall be made without set-off or counterclaim and free and clear of and without any deductions, withholdings, restrictions or conditions of any nature.

This Note is made by the Borrower to the Lender pursuant to the Third Amended and Restated Credit and Security Agreement, dated as of February 24, 2012, among the Borrower, as borrower, GovConnection, Inc., a corporation organized under the laws of the State of Maryland, PC Connection Sales Corporation, a corporation organized under the laws of the State of Delaware, MoreDirect, Inc., a corporation organized under the laws of the State of Florida, and Professional Computer Center, Inc., a corporation organized under the laws of the State of Illinois (each a "Guarantor" and collectively the "Guarantors"), RBS Citizens, N.A. (successor by merger to Citizens Bank of Massachusetts), as lender and agent, and the financial institutions which are or hereafter become a party thereto (collectively, the "Lenders") and is entitled to the benefits of said Third Amended and Restated Credit and Security Agreement (hereinafter, as originally executed, and as now or hereafter amended, modified, varied, supplemented or amended and restated called the "Loan Agreement"). This Note evidences the obligations under the Loan Agreement of the Borrower (a) to repay the principal amount of the Revolving Advances made by the Lender to the Borrower; (b) to pay interest on the principal amount hereof remaining unpaid from time to time; and (c) to pay other amounts which may become due and payable thereunder. This Note has been issued by the Borrower in replacement of the Third Amended and Restated Revolving Credit Note, dated October 15, 2007 (the "Original Note"), by the Borrower to the order of RBS Citizens, N.A. in the stated principal amount of \$50,000,000. The Borrower confirms that the indebtedness outstanding under and evidenced by the Original Note on the date hereof has not been repaid, satisfied or discharged but for all purposes has been continued as provided herein and that the indebtedness evidenced by this Note includes all indebtedness outstanding under the Original Note on the date hereof.

The Borrower will have an obligation to prepay principal of this Note from time to time if and to the extent required under, and upon the terms contained in, the Loan Agreement.

Pursuant to and upon the terms contained in the Loan Agreement, the entire unpaid principal of this Note, all of the interest accrued on the unpaid principal of this Note and all (if any) other amounts payable on or in respect of this Note or the indebtedness evidenced hereby may be declared to be immediately due and payable.

This Note and the obligations of the Borrower hereunder shall be governed by and interpreted and determined in accordance with the laws of the Commonwealth of Massachusetts. The Borrower hereby irrevocably waives notice of acceptance, presentment, notice of nonpayment, protest, notice of protest, suit and all other conditions precedent in connection with the delivery, acceptance, collection and/or enforcement of this Note, except for notice expressly provided for in the Loan Agreement. The Borrower hereby absolutely and irrevocably consents and submits to the jurisdiction of the courts of the Commonwealth of Massachusetts and of any federal court located in Boston, Massachusetts in connection with any actions or proceedings brought against the Borrower by the holder hereof arising out of or relating to this Note.

[remainder of page intentionally left blank; signature page follows]

IN WITNESS WHEREOF, this Fourth Amended and Restated Revolving Credit Note has been duly executed under seal by the undersigned on the day and in the year first above written.

PC CONNECTION, INC.

By: /S/ JACK FERGUSON

Name: Jack Ferguson

Title: Executive VP, Treasurer and CFO

[Fourth Amended and Restated Revolving Credit Note]

SCHEDULE TO
FOURTH AMENDED AND RESTATED REVOLVING CREDIT NOTE

<u>DATED</u>	<u>AMOUNT OF LOAN</u>	<u>INTEREST RATE</u>	<u>AMOUNT PAID</u>	<u>NOTATION MADE BY</u>
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[Fourth Amended and Restated Revolving Credit Note]

EXHIBIT 9.7

COMPLIANCE CERTIFICATE
FOR QUARTER ENDING xxxx xx, 20xx

RBS Citizens, N.A., as Agent
Corporate Banking
331 Montvale Avenue
Wobum, MA 01801
Attention: Marc Lubelczyk

Re: PC Connection, Inc.

Ladies and Gentlemen:

Pursuant to the provisions of Sections 9.7 and 9.8 of that certain Third Amended and Restated Credit and Security Agreement dated as of February [], 2012 (the "Loan Agreement") 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, PC Connection Sales Corporation, a corporation organized under the laws of the State of Delaware, MoreDirect, Inc., a corporation organized under the laws of the State of Florida, and Professional Computer Center, Inc., a corporation organized under the laws of the State of Illinois (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 RBS Citizens, N.A. ("Citizens" and f/k/a Citizens Bank of Massachusetts), 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 Loan 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 quarterly or 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 9.7 or 9.8 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 any charter documents or operating agreement of the Borrower or any of its Subsidiaries heretofore certified to the Agent, or (ii) in the incumbency of the officers of the Borrower or any 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 or 9.7 of the Loan Agreement, as applicable, 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: ***[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 day of , 20 .

PC CONNECTION, INC.

By: _____

Name:

Title: [Must be signed by the Chief Financial Officer of the Borrower]

SCHEDULE A
COMPLIANCE CERTIFICATE

Financial Covenant Compliance Computations as of xxxxxxxx xx, 20xx

Funded Debt Ratio

Required: Not greater than 2.0:1.0

Actual:

1. Average daily outstanding Advances during most recently ended fiscal quarter	\$	(for quarter ended , 20)
2. Rolling four quarter Consolidated EBITDA of Borrower and its Subsidiaries	_____	(for the four quarters ended , 20)
3. Line 1: Line 2	<u>xx:1.0</u>	

In Compliance: [Yes / No]

Minimum Consolidated Net Worth

Required:

1. \$250,000,000	\$250,000,000
2. 50% of Consolidated Net Income of most recently ended fiscal quarter	_____
3. Sum of Line 1 plus Line 2	<u>\$ _____</u>

Actual:

1. Consolidated total assets of the Borrower and its Subsidiaries	\$
2. Consolidated total liabilities of the Borrower and its Subsidiaries	_____
3. Difference of Line 1 minus Line 2	<u>\$ _____</u>

In Compliance: [Yes / No]

Permitted Encumbrances**Inventory Flooring Lines:**

The Company has security agreements with two financial institutions (IBM Credit LLC and GE Commercial Distribution Finance Corporation) 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 \$47.0 million. The cost of such financing under these agreements is borne by the suppliers. At February 17, 2012, outstandings under the lines of credit for IBM Credit LLC and GE Commercial Distribution Finance Corporation were \$9,414,000 and \$2,855,000, respectively.

Capital Leases:

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

Annual lease payments under the terms of the lease, as amended, are approximately \$911,000 for the first five years of the lease, increasing to \$1,025,000 for years six through ten and \$1,139,000 for years eleven through fifteen. The lease requires the Company to pay its proportionate share of real estate taxes and common area maintenance charges as additional rent and also to pay insurance premiums for the leased property. The Company has the option to renew the lease for two additional terms of five years each. The lease has been recorded as a capital lease.

The net book value of capital lease assets was \$922,000 and \$1,403,000 as of December 31, 2011 and 2010, respectively.

Future aggregate minimum annual lease payments under these leases at December 31, 2011 are as follows:

Year Ending December 31	Payments (in thousands)
2012	\$ 1,139
2013	1,045
Total minimum payments (excluding taxes, maintenance and insurance)	2,184
Less amount representing interest	223
Present value of minimum lease payments	1,961
Less current maturities (excluding interest)	971
Long-term portion	\$ 990

Schedule 1.4

Permitted Subordinated Indebtedness

None

Schedule 4.5

Equipment and Inventory Locations

Omitted per Bank's approval

Schedule 4.11

Schedule of Insurance

Please see attached Certificate of Insurance previously delivered to the Agent.

Schedule 4.19

Real Property

REAL PROPERTY OWNED:

None

REAL PROPERTY LEASED OR RENTED:

730 Milford Road Merrimack, NH 03054	Corporate headquarters, sales, finance, IT, HR, other supporting activities (lease entire building)
732 Milford Road Merrimack, NH 03054	Sales and misc. storage (lease entire building)
442 Marlboro Street Keene, NH 03431	Sales training and miscellaneous other rooms in former residential building (lease entire building)
450 Marlboro Street Keene, NH 03431	Sales, credit, legal, facilities offices (lease entire building)
Christmas Tree Inn Marlow, NH 03456	Training Center, offsite meeting area, record storage (old inn and adjacent parking lot, lease entire property)
222 International Drive, Suite 125 Portsmouth, NH 03801	Sales offices, credit (lease small part of large office building)
2870, 2835-2935 Old State Rt. 73, Wilmington, OH, 45177	Warehouse facilities, inventory storage, distribution Center, and shipping (lease warehouse buildings in dedicated DHL air park)
293 Boston Post Road Marlborough, MA 01752	Sales offices, credit, HR offices (lease small part of large office building)
7503 Standish Place Rockville, MD 20855	Sales, finance, credit offices, subsidiary corporate HQ (lease part of large office building)
800 Stevens Port Dr. Dakota Dunes, SD 57049	Sales offices (lease part of office building)
4800 T-Rex Ave., Ste 300 Boca Raton, FL 33431	Sales, finance, IT, subsidiary corporate HQ (lease selected suites in office building). Vacating 3/16/12.
1001 Yamato Rd., Suite 200 Boca Raton, FL 33431	Sales, finance, IT, subsidiary corporate HQ (lease selected suites in office building). Beginning 3/16/12.
Quorum Place 14901 Quorum Dr. Dallas, TX 75254	Sales suite (lease small office in office building)

Maritime Bldg.
911 Western Ave., Suite 403
Seattle, WA 98104

Sales suite (lease small office in office building)

1433 Hamilton Pkwy
Itasca, IL 60143

Sales, finance, IT, subsidiary corporate HQ (lease part of office building).

Schedule 5.2

States of Qualification

PC CONNECTION, INC. & SUBSIDIARIES

<u>State</u>	<u>PC Connection Inc.</u>	<u>PC Connection Sales Corp.</u>	<u>Gov Connection, Inc.</u>	<u>MoreDirect, Inc.</u>	<u>Professional Computer Center, Inc.</u>
AK			X		
AL				X	
AR				X	
AZ					X
CA			X	X	X
CO					X
CT			X	X	
DC			X		
DE	X	X	X		
FL			X	X	X
GA					X
HI			X		
IA					X
ID		X			
IL			X		X
IN			X		X
KY	X		X		X
LA			X		X
MA					X
MD			X	X	X
MI	X				X
MN					X
MO		X		X	X
NC				X	X
ND		X	X		
NE				X	
NH	X	X	X	X	
NJ	X				X
NM			X	X	
NV					X
NY			X	X	X
OH	X	X	X		X
PA			X		X

<u>State</u>	<u>PC Connection Inc.</u>	<u>PC Connection Sales Corp.</u>	<u>Gov Connection, Inc.</u>	<u>MoreDirect, Inc.</u>	<u>Professional Computer Center, Inc.</u>
SC		X	X	X	X
SD			X		
TN					X
TX					X
UT			X	X	X
VA	X		X		X
WA			X		X
WI					X
WV		X	X	X	

Schedule 5.4

Federal Tax Identification Number

PC Connection, Inc.	02-0513618
PC Connection Sales Corporation	02-0497006
GovConnection, Inc.	52-1837891
MoreDirect, Inc.	65-0526173
Professional Computer Center, Inc.	36-3236851

Schedule 5.6

Prior Names

Of

PC CONNECTION, INC. AND SUBSIDIARIES

PC Connection Sales Corporation

Prior to the Corporate Reorganization effective January 1, 2000, this legal entity was known as PC Connection, Inc. On January 1, 2000, that company reorganized into a holding company format under which the old PC Connection, Inc. became a subsidiary of the new holding company and changed its name to PC Connection Sales Corp., and then to PC Connection Sales Corporation. The new holding company, named Holdco, Inc. changed its name to PC Connection, Inc.

This company sells product under the following dbas and trade names: PC Connection, MacConnection, and PC Connection Express.

GovConnection, Inc.

Effective January 10, 2002, ComTeq Federal, Inc. changed its name to GovConnection, Inc. This company formerly sold products under the ComTeq, ComTeq Federal of New Hampshire, and PC Connection Federal dba. It now uses GovConnection as dba.

MoreDirect, Inc.

This company, acquired by the Borrower on April 4, 2002, was known as Corporate Buying Service prior to 2000 and MoreDirect.com, Inc. from 2000 to 2001. Its current name was adopted in 2001.

Professional Computer Center, Inc.

This company, acquired by the Borrower on March 17, 2011. This company sells product and services under the dbas Valcom Technology Management Solutions and ValCom.

Schedule of Litigation

None

Schedule of Pension Plans

PC Connection, Inc. and Subsidiaries (excluding Professional Computer Center, Inc.)

Welfare Benefit Plan (health, dental, vision, life, 125 cafeteria plans, etc.)

Employee 401(k) and Profit Sharing Plan. The Company has a contributory profit-sharing and employee savings plan covering all qualified employees. No contributions to the profit-sharing element of the plan were made by the Company in 2011, 2010, or 2009. Given the decline in IT spending experienced in 2009, the Company suspended, effective July 1, 2009, employer-matching contributions to the employee savings element of such plan. Effective January 1, 2011, the Company reinstated the employer matching contribution. The Company made matching contributions of \$1,288,000 in 2011, \$0 in 2010, and \$595,000 in 2009.

Professional Computer Center, Inc.

Welfare Benefit Plan (health, dental, vision, life, 125 cafeteria plans, etc.)

Professional Computer Center, Inc's 401(k) Plan will be merging into PC Connection, Inc.'s Plan ("plan-to-plan transfer") effective April 1, 2012.

Schedule 5.10

Licenses and Permits

None

Tax Audits and Investigations Open

None

Claims for Brokerage Commissions, Fees for Loan Facility

None

Schedule 6.4

Landlord Access Properties

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

MoreDirect, Inc.
1001 Yamato Rd., Suite 200
Boca Raton, FL, 33431

Professional Computer Center, Inc.
1433 Hamilton Parkway
Itasca, IL 60143-1188

Schedule 7.3

Guarantees

1. PC Connection, Inc. is guarantor under a Blanket Guaranty Agreement filed with Dunn & Bradstreet under which PC Connection, Inc. guaranties all of the obligations of PC Connection Sales Corporation, GovConnection, Inc., MoreDirect, Inc., and Professional Computer Center, Inc. This guaranty form was filed in order for Dunn & Bradstreet to assign PC Connection Inc.'s 5A1 rating to the other subsidiaries as well.
2. PC Connection, Inc. and subsidiaries may individually or collectively guarantee one another's obligations with IBM Credit LLC under an inventory financing agreement.
3. PC Connection, Inc. and subsidiaries may individually or collectively guarantee one another's obligations with GE Commercial Distribution Finance Corporation under an inventory financing agreement.
4. PC Connection, Inc. may guarantee the obligations of one or more of its Subsidiaries with trade creditors who require specific guarantees in addition to the blanket guaranty in # 1 above.

Summary of Compensation for Executive Officers

Following is a description of the compensation arrangements for each of PC Connection, Inc.'s (the "Company's") executive officers. The Company's executive officers as of February 28, 2012 consisted of: (i) Timothy McGrath, President and Chief Executive Officer; (ii) Patricia Gallup, Executive Chairman and Chief Administrative Officer; (iii) Jack Ferguson, Executive Vice President, Treasurer, and Chief Financial Officer; and (iv) John Polizzi, Senior Vice President and Chief Information Officer.

The Compensation Committee annually reviews and approves the compensation of the Chief Executive Officer. It also reviews and approves the compensation of the Company's other executive officers, based on recommendations from the Chief Executive Officer. In determining executive compensation, the Compensation Committee considers a number of different factors, including the mix of salary, bonus, and incentive compensation levels. In addition, a subcommittee of the Compensation Committee is responsible for the determination and approval of corporate goals and targets under the Company's Executive Bonus Plan as well as administration of the Company's cash and equity incentive plans. The Compensation Committee seeks to achieve three broad goals in connection with the Company's compensation philosophy and decisions regarding compensation. First, the Company is committed to providing executive compensation designed to attract, retain, and motivate executives who contribute to the long-term success of the Company and are capable of leading the Company in achieving its business objectives in the competitive and rapidly changing industry in which the Company operates. Second, the Company wants to reward executives for the achievement of company-wide business objectives of the Company. By tying compensation in part to achievement, the Company believes that a performance-oriented environment is created for the Company's executives. Finally, compensation is intended to provide executives with an equity interest in the Company so as to link a meaningful portion of the compensation of the Company's executives with the performance of the Company's Common Stock.

Compensation for the Company's executives generally consists of three elements:

- salary—levels are generally set by reviewing compensation for competitive positions in the market and considering the executive's level of responsibility, qualifications, and experience, as well as the Company's financial performance and the individual's performance;
- bonus—bonuses are paid out under the Company's Executive Bonus Plan and are based on the achievement of company-wide net income and expense leverage goals. Cash bonuses are set as a percentage of the executive officer's base salary; and
- equity awards—equity awards provide long-term incentives to promote and identify long-term interests between the Company's employees and its stockholders and to assist in the retention of executives.

The following table lists the 2011 annual salaries and bonuses of the Company's executive officers.

	<u>Salary</u>	<u>Bonus ⁽¹⁾</u>
Timothy McGrath ⁽²⁾ President and Chief Executive Officer	\$626,923	\$698,892
Patricia Gallup ⁽³⁾ Executive Chairman and Chief Administrative Officer	582,692	636,354
Jack Ferguson Executive Vice President, Treasurer, and Chief Financial Officer	356,154	423,256
John Polizzi ⁽⁴⁾ Senior Vice President and Chief Information Officer	309,615	180,050

- (1) The Compensation Subcommittee approved such bonuses under the Company's Executive Bonus Plan pursuant to achievement of company-wide net income and expense leverage goals.
- (2) Mr. McGrath was promoted to Chief Executive Officer on August 8, 2011, and in connection with his promotion, his salary increased from \$550,000 to \$750,000. The salary presented above includes the pro-rated increase awarded with his promotion.
- (3) Ms. Gallup resigned her position as Chief Executive Officer and was appointed to Chief Administrative Officer on August 8, 2011, and in connection with her resignation, her salary decreased from \$750,000 to \$315,000. The salary presented above includes the pro-rated decrease connected with her resignation. In addition, Ms. Gallup receives compensation for her service as Executive Chairman of our Board of Directors.

The Company granted equity awards in 2011 to the Company's executive officers, as shown below:

	<u># of RSU Shares</u>	<u>Per Share Fair Market Value</u>
Timothy McGrath ⁽¹⁾ President and Chief Executive Officer	100,000	\$ 5.21

- (1) Mr. McGrath received 100,000 restricted stock units in connection with his promotion to Chief Executive Officer on August 8, 2011. The restricted stock units vest ratably over four years beginning August 8, 2014, and contain post-vesting selling restrictions, that limit his selling to 10% of the awarded shares per year, with such selling restriction lapsing at age 65.

Summary of Compensation for Directors

As of December 31, 2011, PC Connection, Inc.'s directors consisted of: (i) Joseph Baute; (ii) David Beffa-Negrini; (iii) Barbara Duckett; (iv) David Hall; (v) Patricia Gallup; and (vi) Donald Weatherson. Effective August 8, 2011, each director receives an annual retainer of \$75,000, payable quarterly, for service on the Board. Each independent director also receives an annual retainer of \$15,000, payable quarterly, for participation in the Board's audit and compensation committees. In addition, Board members who act in a chairman capacity receive annual fees as follows: Board chair, \$35,000; Board vice-chair, \$10,000; audit committee chair, \$10,000; compensation committee and sub-committee chair, \$5,000. Previously, each non-officer director received a standard quarterly retainer fee of \$10,000 for service on the Board as well as \$2,500 for each individual board meeting attended and \$1,500 for each committee meeting attended. On August 8, 2011, each director was awarded 4,000 restricted stock units, valued at a price of \$6.94 per unit, which vest ratably over two years, beginning on August 8, 2014. The table below sets forth the total retainer fee paid for 2011, and per board meeting and committee meeting fees paid to our directors in 2011:

<u>Director</u>	<u>Total Retainer Fee Paid for 2011⁽¹⁾</u>	<u>Fee Per Board Meeting Attended⁽²⁾</u>	<u>Fee Per Committee Meeting Attended⁽²⁾</u>
Joseph Baute	\$ 63,641	\$ 2,500	\$ 1,500
David Beffa-Negrini	53,791	2,500	1,500
Barbara Duckett	61,671	2,500	1,500
Patricia Gallup	43,343	—	—
David Hall	53,791	2,500	1,500
Donald Weatherson	63,641	2,500	1,500

- (1) In addition, non-officer directors receive reimbursement for all reasonable expenses incurred in attending board and committee meetings.
- (2) Effective August 8, 2011, the Company ended the payment of fees for individual board and committee meetings.

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. GovConnection, Inc., a Maryland corporation.
3. MoreDirect, Inc., a Florida corporation.
4. Professional Computer Center, Inc. d/b/a ValCom Technology, an Illinois corporation.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-166645, 333-161172, 333-144065, 333-130389, 333-66450, 333-40172, and 333-83943 on Form S-8 of our reports dated February 28, 2012, relating to the financial statements and financial statement schedule of PC Connection, Inc. and the effectiveness of PC Connection, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of PC Connection, Inc. for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP
Boston, Massachusetts
February 28, 2012

CERTIFICATIONS

I, Timothy McGrath, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ TIMOTHY MCGRATH

Timothy McGrath
President and Chief Executive Officer

CERTIFICATIONS

I, Jack Ferguson, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

/s/ JACK FERGUSON

Jack Ferguson
Executive Vice President, Treasurer, and Chief Financial Officer

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

In connection with the annual report on Form 10-K of PC Connection, Inc. (the "Company") for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Timothy McGrath, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to the best of his knowledge:

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

Date: February 28, 2012

/s/ TIMOTHY MCGRATH

Timothy McGrath
President and Chief Executive Officer

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

In connection with the annual report on Form 10-K of PC Connection, Inc. (the "Company") for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jack Ferguson, Executive Vice President, Treasurer, and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that to the best of his knowledge:

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

Date: February 28, 2012

/s/ JACK FERGUSON

Jack Ferguson
Executive Vice President, Treasurer, and Chief Financial Officer

