SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10–K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1999 **Commission File No. 0–19394**

GOVERNMENT TECHNOLOGY SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**54–1248422**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3901 Stonecroft Boulevard, Chantilly, Virginia 20151–0808
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (703) 502–2000

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

Common Stock, $0.005 par value
(Title of class)

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

YES ✍. **NO ✍**

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price of the Common Stock on March 1, 2000, as reported on The Nasdaq Stock Market, was $41,557.694.

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

The number of shares outstanding of the registrant's Common Stock on March 1, 2000, was 9,235,043.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be delivered to stockholders in connection with their Annual Meeting of Stockholders to be held on May 16, 2000 are incorporated by reference into Part III of this Form 10-K.

PART I

Item 1. BUSINESS.

The Company

Government Technology Services, Inc. ("GTSI" or the "Company") is a leading business to Government marketer (B2G) of microcomputer and Unix workstation hardware, software and networking products to the Federal government market. (Unless the context indicates otherwise, all references herein to the capitalized term "Government" shall refer to the U.S. Federal Government, and all references herein to the non-capitalized term "government" shall refer generally to any federal, state or municipal government.) The Company was incorporated in Nevada in 1983 and reincorporated in Delaware in 1986. On August 16, 1994, the Company purchased Falcon Microsystems, Inc. ("Falcon"), which was a leading reseller of Apple Computer, Inc. ("Apple") products to the Government for the ten years prior to its acquisition. The acquisition was part of the Company's corporate strategy to expand and build upon its presence in the Federal, state and local government markets. (Unless the context indicates otherwise, all references below to "GTSI" or the "Company" for periods after August 16, 1994, shall refer to Government Technology Services, Inc. and Falcon.)

On February 12, 1998, the Company entered into and closed on an Asset Purchase Agreement with BTG, Inc. and two of its subsidiaries (collectively, "BTG") under which the Company acquired substantially all of the assets of the BTG division that resells computer hardware, software and integrated systems to the Government (the "BTG Division"). The acquired assets consisted primarily of inventory and rights under certain contracts and intangible personal property, along with furniture, fixtures, supplies and equipment. In addition, the Company assumed certain liabilities under specified contracts of BTG as well as certain liabilities arising from the ownership or operation of the acquired assets after the closing. The Company paid at closing $7,325,265 in cash (after a $174,735 adjustment for accrued vacation liability and satisfaction of an outstanding invoice owed by BTG) and issued 15,375 shares, having a liquidation preference of $15,375,000, of a new series of preferred stock designated as Series C 8% Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"). The Company paid an additional $500,000 in cash upon the release of liens on certain items of equipment which are part of the acquired assets. A portion of the consideration, $800,000 in cash and 1,538 shares of Series C Preferred Stock, was held under an escrow agreement to secure BTG's indemnification obligations under the Asset Purchase Agreement. Under the Asset Purchase Agreement, BTG was obligated to repay to the Company up to $4.5 million to the extent that there was a shortfall in the amounts that the Company received from dispositions of certain inventory acquired.

Subsequent to the closing, BTG delivered to the Company certain other inventory ("Surplus Inventory"). By letter dated May 15, 1998, the Company and BTG agreed that BTG would invoice GTSI an aggregate of $3,912,419 for Surplus Inventory. In addition, BTG agreed to pay to the Company $1 million on June 30, 1998, which constituted full and complete payment for any inventory shortfall as described in the Asset Purchase Agreement, as well as $250,000 for costs associated with processing the Surplus Inventory.

Pursuant to the Asset Purchase Agreement, the Company agreed to convene a meeting of stockholders no later than January 1, 1999 to approve a proposal to convert the Series C Preferred Stock into 3,000,000 shares of Common Stock (the "Conversion Proposal"), and a proposal to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock from 10,000,000 to 20,000,000 (the "Charter Amendment Proposal"). At the Company's annual meeting of stockholders held on May 12, 1998, the Company's stockholders approved the Conversion Proposal and the Charter Amendment Proposal. The Series C Preferred Stock was converted automatically into

3,000,000 shares of Common Stock valued at $5.125 per share and which, pursuant to the exemption provided under Section 4(2) of the Securities Act of 1933, as amended ("Securities Act"), were not registered under the Securities Act.

On February 10, 1999, the Company entered into subsequent agreements with BTG. The agreements relate to the reacquisition of stock by GTSI from BTG, the terms of certain contracts and the relationship of the parties going forward. Pursuant to the agreements, GTSI reacquired 600,000 shares of its stock from BTG. Of the 600,000 shares, 200,000 were tendered to GTSI at no cost and 400,000 were purchased by GTSI for $5.00 per share, in exchange for a three-year, 8% interest bearing note from BTG with the principal due in three annual installments of $500,000, $500,000 and $1,000,000, respectively. As part of the agreements, GTSI has an exclusive five-year option to purchase the remaining 1.3 million shares of GTSI stock held by BTG for $5.25 per share. Under the February 12, 1998 Asset Purchase Agreement, BTG is precluded from selling any of its holdings, with certain limited exceptions, to a third party for six years without GTSI's prior consent. Under the February 10, 1999 agreement, GTSI must consent to a sale by BTG of their stock to any third party. If GTSI consents to such a sale, BTG is obligated to pay GTSI $0.50 per share on any shares sold by BTG.

As a result of the agreement, BTG transferred to GTSI all of the cash portion of the February 12, 1998 escrow, totaling $827,219, and BTG's ownership interest in GTSI was reduced to 13.3%. Consequently, BTG forfeited its right to representation on the GTSI Board and Dr. Edward H. Bersoff, Chief Executive Officer of BTG, resigned from the GTSI Board. The agreements also provide that BTG will novate certain contracts that GTSI had been performing in the capacity of a subcontractor, and halts all royalty payments by GTSI to BTG after December 31, 1998.

GTSI offers its customers a convenient and cost-effective centralized source for microcomputer and workstation solutions through its broad selection of popular products and services at competitive prices. The Company specializes in understanding both the various information technology needs and the procurement processes of Government customers. GTSI sells to most departments and agencies of the Government, state governments and systems integrators and prime contractors selling to the government market. In 1999, GTSI's sales directly to Government agencies, to prime contractors for resale to Government agencies and to state and local government agencies accounted for 90%, 8% and 2% of sales, respectively.

The Company commenced operations in 1983 and initially focused on reselling microcomputer software to Government agencies. In 1985, the Company expanded its product line to include peripherals and began selling its full line of products to the state government market. In 1986, the Company began selling microcomputers and networking products and began performing network integration services, including configuring, installing and maintaining microcomputers in local area networks ("LANs"). Since 1987, GTSI has been pursuing formal Government bids in addition to General Services Administration ("GSA") Schedule contracts. In January 1992, GTSI began reselling Unix workstations and related software and peripherals.

GTSI currently offers access to approximately 150,000 information technology products from approximately 2,100 manufacturers, including Hewlett–Packard Company ("Hewlett–Packard"), Microsoft Corporation ("Microsoft"), Compaq Computer Corporation ("Compaq"), Panasonic Personal Computer Company (a division of Matsushita Electric Corporation of America), CISCO Systems Incorporated ("CISCO"), Sun Microsystems, Inc. ("Sun"), Apple Computer, Inc., Toshiba America Information Systems, Inc. ("Toshiba") and International Business Machines Corp.("IBM"). The Company provides its vendors with a low-cost marketing and distribution channel to the many end users comprising the government market, while virtually insulating these vendors from most of the complex government procurement rules and regulations.

GTSI fulfills customer orders from its state-of-the-art 200,000-square foot distribution center located in Chantilly, Virginia. In addition to the normal distribution functions, activities at the center include stocking of popular items for fast delivery, customizing equipment through the integration of various hardware and software components, and specialized services such as providing source acceptance inspections and documentation. The distribution center has the capability of supporting approximately $1.5 billion in shipments per year. This includes the capacity to integrate hardware at an estimated rate of 1,600 to 1,800 units per day including functional and diagnostic testing of all integrated components. In 1998, the Company's distribution and integration operations achieved ISO 9002 certification. The Company also subleases a 20,000 square foot distribution center in Chattanooga, Tennessee. In addition to being able to ship to any of the 48 contiguous states overnight, the center's location in the Washington, D.C. metropolitan area allows for expedited deliveries to anywhere in the world.

"GTSI" is a registered service mark of Government Technology Services, Inc. All other trademarks and service marks are proprietary to their respective owners.

Business Strategy

GTSI is committed to, and focused on, the government customer. The Company's business strategy is to continue to broaden its product offering, to remain a low-cost provider and to bring new technologies to government customers by concentrating on the following elements:

Focus on the Government Market. Because of its historical focus on the Government market, GTSI has developed the expertise and established the vendor and customer relationships necessary to be a leader in this market. As a result, GTSI's marketing and sales force is effective at reaching and servicing the Government market, which consists of procurement and contracting officers, information resource managers, systems integrators, value-added resellers ("VARs"), prime contractors and a wide array of end users. In addition, by focusing on the Government market, the Company has avoided the significant costs of commercial retail outlets and the potentially higher credit risk associated with selling solely to commercial entities.

Pursue Government Contracts. GTSI pursues Government contracts ranging in size from as small as a few hundred dollars to as large as potentially hundreds of millions of dollars in sales. The Company holds a wide range of Government contracts, including multi-million dollar, multi-year contracts with the Department of Defense ("DoD") and certain civilian agencies, as well as several multiple award schedules and Blanket Purchasing Agreements ("BPA's") with a variety of DoD and civilian agencies (generally, "contract vehicles"). GTSI also serves as a subcontractor to companies holding Government contracts. The Company intends to continue to identify and pursue those contract vehicles that best leverage GTSI's broad product selection, distribution capabilities and vendor relationships.

Focus on Office Automation Products. GTSI focused initially on the rapidly growing market for microcomputer applications software and expanded successively into the complementary office automation market segments of peripherals, microcomputers and networking products, including LANs. The Company continued this product strategy by expanding its product line in early 1992 to include hardware, software and services for RISC–based Unix workstations manufactured by Sun and in 1993 to include the full line of products manufactured by Apple. In 1996, GTSI began focusing on internet and intranet products and services and entered into an agreement with Hewlett-Packard to add their Unix–Based server products. In 1998, GTSI began offering a full range of seat management services to Government agencies. These services include project management, help desk support, local area network management support, basic hardware support, continuous training support, asset management, information technology planning as well as technical assessment and evaluation. In future years, the

Company intends to add other complementary office automation products and expanded systems integration services.

Focus on Customer Service. In the Company's process orientation and interaction with its many customers, Company employees focus on attempting to provide high quality customer service(s) associated with the order, delivery, installation and repair of microcomputer and workstation products. By following a "one person – one transaction – one time" approach to customer service, the Company's employees strive to ensure customer satisfaction and thereby increase the possibilities for future business.

Provide a Centralized Source for Procuring Office Automation Products and Services. In addition to offering a full line of microcomputer hardware, software and peripheral products as well as the leading brand of workstations, GTSI offers its customers pre- and post-sale technical support and assistance in the selection, configuration, installation and maintenance of the products and systems that GTSI sells. Furthermore, by offering a wide range of microcomputer and workstation products through a variety of procurement mechanisms, GTSI offers its customers the convenience, flexibility and cost savings of purchasing from a centralized source. GTSI believes that its convenient "one-stop shop" for microcomputer and workstation products is an important factor in its success in the government market.

Maintain Competitive Pricing and Improve Operating Efficiencies. The government market is price-sensitive. GTSI therefore focuses both on offering competitive pricing to its customers and on constantly improving operating efficiencies.

Establish and Maintain Strong Vendor Relationships. In order to provide a centralized source of products for its customers, GTSI maintains strong relationships with leading hardware and software vendors. GTSI offers its vendors a wide range of marketing and sales services, which provide them with access to the millions of end users comprising the government market. In addition, the Company virtually insulates its vendors from most of the procurement regulatory complexities, costs, extensive paperwork and complicated billing requirements associated with the government market.

The Government Procurement Process

The Company's 1999 revenues were derived primarily from sales directly to departments and agencies of the government and to prime contractors reselling to the government market. The Company achieves these sales primarily through contracts with the government and through open market sales. Company contracts with the government include GSA schedule contracts and indefinite dealing/indefinite quantity contracts.

GSA Schedule Contracts

In 1996, GTSI held four GSA Schedule contracts: Schedule A, Schedule B/C, Schedule 58 Parts VI and VII, and Schedule E. Schedule A included general purpose commercial automatic data processing equipment and software including workstations and connected peripherals equipment. Schedule B/C included general-purpose automatic data processing equipment (end-user computers, normally microcomputers and related software) for office use environment. Schedule 59 Part VI and VII was for telecommunications products, and Schedule E was for electronic commerce and services. On November 26, 1997 GSA combined the four schedules under the terms of the B/C Schedule Contract and the B/C Schedule Contract became the Information Technology ("IT") Schedule. Products offered under the IT Schedule Contract include workstations, desktops, laptops, notebooks, servers, laser printer, color printers, scanners, monitors, modems, hard drives, memory, networking products, facsimile products, internet and intranet products, video teleconferencing, maintenance, training and services. GTSI's IT schedule is set to expire on March 31, 2002. In August 1998, GTSI was awarded GSA Schedule 36.

Schedule 36 is for the supply of Hewlett-Packard printer toner cartridges. Schedule 36 is set to expire on September 30, 2003.

The GSA, which is the central procurement agency of the Executive Branch of the Government, negotiates schedule contracts. Although Government agencies are not required to purchase products under GSA Schedule contracts, these contracts provide all Government agencies, certain international organizations and authorized prime contractors with an efficient and cost-effective means for buying commercial products. Government agencies and other authorized purchasers (collectively, "GSA Schedule Purchasers") may purchase goods under GSA Schedule contracts at predetermined ceiling prices, terms and conditions. GSA Schedule Purchasers may place unlimited orders for products under GSA Schedule contracts. However, agencies are instructed to seek lower prices for orders exceeding a "maximum order" threshold. This threshold is $25,000 per order for classroom training, $50,000 per order for shrink-wrap software and $500,000 per order for other software and hardware.

GSA Schedule contracts are awarded on the basis of a number of factors, the most important of which are compliance with applicable Government regulations and the prices of the products to be sold. Any number of competing vendors may be awarded a GSA Schedule contract for a given product although manufacturers may enter into exclusive relationships. GSA Schedule contracts require that each bidder must either be the manufacturer of the product covered by the contract or furnish evidence of capability to provide a manufacturer's product for the period of the GSA Schedule contract. Products may be added to a GSA Schedule contract during its term under certain circumstances with the consent of both the contractor and Government. GSA Schedule contracts include a GSA administrative fee calculated on the product price. This fee is collected by the Company and is remitted quarterly to the GSA.

GTSI's GSA Schedule contracts require the Government to pay for product shipped under the contracts within 30 days of acceptance by the Government. The GSA Schedule contracts also permit payment by Government-issued credit cards. When payment is made by credit card, the Company usually receives payment in less than 30 days. The Government may require GTSI to accept returns only of incorrectly shipped product. GTSI's GSA Schedule contracts require GTSI to pass on to customers the vendor's warranty and to provide for on-site or depot maintenance at a pre-paid flat fee. GTSI's GSA Schedule contracts also contain price reduction clauses requiring, among other things, that GTSI pass on to Government customers certain reduced prices GTSI may receive from its vendors during a contract's term but prohibiting GTSI to pass on vendor price increases for a period of one year. To mitigate the potential adverse impact of any such price increase, the Company requires virtually all vendors acting as suppliers to GTSI under its GSA Schedule contracts to provide GTSI with supply and price protection. The Schedule includes an economic price adjustment clause that permits the Company to adjust contract prices upward if certain conditions have been satisfied after a period of one year.

Blanket Purchase Agreements

Historically, the Company has held hundreds of BPA's with federal agencies. A BPA is a simplified but non-mandatory, fixed price, IDIQ contract for the Government to purchase products, usually by establishing charge accounts with qualified sources. Agencies typically enter into BPA's for similar products with several companies. BPA's generally include a list of products at established prices, individual purchase limits for authorized purchasers, and other pre-negotiated terms and conditions. Purchases under BPA's are often paid for with a Government-issued credit card.

In 1996, the GSA authorized agencies to enter into BPA's with Schedule holders. The GSA-authorized BPA's incorporate many terms and conditions of the GSA Schedule contracts, and incorporate many products offered on GSA Schedule contracts, often at lower prices than available on the GSA

Schedules. The Company normally enters into separate agreements with vendors in order to offer reduced BPA prices to the Government. The BPA sales vehicle allows the Company to focus specific vendor relationships on specific sets of customers. In response to the GSA's authorization, the Company has increased its emphasis on BPA's.

Formal Bids

A significant portion of Government purchases of computer products and services are made under contracts or purchase orders awarded through formal competitive bids and negotiated procurements. Since 1987, in addition to its GSA Schedule and open market business, GTSI has pursued formal Government bids. Since substantially all of these bids are awarded on the basis of "best value" to the Government (which, depending on the bid, can be a combination of price, technical expertise, past performance on other Government contracts and other factors), GTSI has sought to use its vendor contacts, purchasing power, distribution strength and procurement expertise to successfully compete for the business. These major procurements can exceed millions of dollars in total revenues, span many years, and provide a purchasing vehicle for many agencies. The vast majority of the contracts pursued by GTSI have been fixed-price (i.e., at the time of initial award, the end-user selling prices are set for the duration of the contract at a specified level or at specified levels varying over time) and IDIQ (i.e., the contract provides no pre-set delivery schedules or minimum purchase levels). In some cases, various agencies levy a fee on those on purchases made by departments outside of the agency, which awarded the contract. These fees are collected by the Company, and as under the GSA contract, remitted to the respective agency on a contract specified payment schedule.

GTSI's bids group is responsible for evaluating bid opportunities, identifying key products or services needed to respond to bids, negotiating favorable agreements with suppliers and subcontractors, preparing written responses to the solicitation document, meeting all mandatory technical requirements and, in general, successfully managing the proposal effort. GTSI's competitors for these contracts typically include major systems integrators, computer manufacturers and a variety of other systems integrators, VARs and commercial resellers.

Open Market

Many microcomputer and workstation products may also be resold by GTSI through open market procurements. These procurements are separate and apart from GSA Schedules or formal competitive bids, and include simplified acquisition procedures, requests for quotes, invitations for bids and requests for proposals. The Company is on most Government bid lists relevant to its product offerings and responds with proposals to hundreds of such bid solicitations each year. When awarding contracts, the Company's customers often evaluate, in addition to price, which is typically the most important factor, a number of other factors, such as the vendor's experience, performance record, service, support and financial strength. Unless purchasing electronically, Government agencies procuring products not on a Schedule or other contract vehicle must typically publicize their procurements with a value in excess of $25,000 to allow competitors to submit price quotes. The Company also sells to Government prime contractors, including systems integrators, typically through open market procurements. As a result of recent legislative changes, the Government is encouraged to make purchases under $2,500 by credit card and often without competition. In 1996, GTSI initiated a catalog offering for sales of microcomputer products. Many of these products offered for sale are for less than $2,500 and are available via credit card purchases. GTSI discontinued its catalog at the end of 1998, and replaced it with an expanded website.

State and Local Contracts

Most purchases in the state government market are made through individual competitive procurements, although many state governments issue invitations for bid for statewide computer term contracts. State and local procurements typically require formal responses and the posting of "bid bonds" or "performance bonds" to ensure complete and proper service by a prospective bidder. Each state maintains a separate code of procurement regulations that must be understood and complied with in order to successfully market and sell to that state. GTSI currently maintains several state and local microcomputer contracts, submits oral and written bids to state and local governments each month and is on a number of state and local government bid lists.

Government Market Considerations

A substantial portion of the Company's contracts are fixed-price and IDIQ. The uncertainties related to future contract performance costs, product life cycles, quantities to be shipped and dates of delivery, among other factors, make it difficult to predict the future sales and profits, if any, that may result from such contracts.

Under applicable Government regulations GTSI qualified as a "small business" under several of the contracts it held during 1999 by virtue of it being a non-manufacturing entity with a rolling average over the prior 12 months of 500 or fewer employees at the time of contract award. As a small business, GTSI enjoyed a number of significant benefits, including being able to: compete for designated small business set-aside contracts; bid pursuant to preferential small purchase procedures for open market purchases under $100,000 directed to non-manufacturer small businesses; qualify as a small business subcontractor to prime contractors on contracts over $500,000 in which the prime contractor must submit to the Government a small business subcontracting plan; offer Government agencies the advantage of having their purchases from GTSI count toward fulfilling their internal small purchase goals; and avoid having to establish small business subcontracting plans in order to compete for certain large Government contracts.

As a result of the acquisition of the BTG Division in February 1998, GTSI no longer qualifies as a small business for contract awards after February, 1998. Although most government contracts entered into before the BTG Division acquisition will not be affected by this change, the Company cannot predict the effect, if any, of this change on its operations. GTSI has a number of possible actions available to it to seek to mitigate an adverse impact to GTSI of the future loss of its small business status, including the following: increasing sales through the large number of Government contracts which are not subject to small purchase procedures; aggressively implementing GTSI's low-cost, one-stop shop strategy to economically encourage customers to continue to place orders with GTSI; expanding its sales to prime contractors qualifying as small or minority-owned businesses; and increasing its sales to state and other markets not subject to Government small business regulations. Currently, GTSI cannot precisely quantify the extent of the impact, if any, on its future results from a loss of its small business status.

Noncompliance with Government procurement regulations or contract provisions could result in termination of Government contracts, substantial monetary fines or damages, suspension or debarment from doing business with the Government and even civil or criminal liability. During the term of any suspension or debarment by any Government agency, the contractor could be prohibited from competing for, or being awarded any contract by any Government agency. In addition, virtually all of the Company's Government contracts are terminable at any time at the convenience of the Government or upon default. Upon termination of a Government contract for default, the Government may also seek to recover from the defaulting contractor the increased costs of procuring the specified goods and services from a different contractor. The effect of any of these possible Government actions or the adoption of new or modified procurement regulations or practices could adversely affect the Company.

The Company has historically experienced and expects to continue to experience significant seasonal fluctuations in its operations as a result of Government buying and funding patterns. Although these patterns have historically led to sales being concentrated in the Company's third and fourth quarters, the seasonality and the unpredictability of the factors affecting such seasonality make GTSI's quarterly and yearly financial results difficult to predict and subject to significant fluctuation.

The industry in which the Company conducts its business, as well as the geographic location of the Company's headquarters near the nation's capitol and the concomitant density of high technology companies headquartered nearby, results in a limited pool of qualified employees. Although the Company believes that its compensation and benefits are competitive, such competition and geography may from time to time impact the Company's ability to attract and retain a competent and productive workforce.

Products

The Company currently offers access to approximately 150,000 information technology products from approximately 2,100 hardware and software vendors. The Company continuously monitors sales of existing and newly introduced products to ensure that it carries state-of-the-art technology products.

Hardware. The Company currently resells microcomputers from major brand name manufacturers, including Hewlett–Packard, Panasonic, Compaq, Sun, Apple, and IBM and peripherals from major brand name manufacturers, including Hewlett–Packard, Tektronix, Sony, Iomega, Panasonic and Kodak. The Company began selling RISC-based Unix workstations manufactured by Sun in 1992. In 1993, the Company began selling the full line of products manufactured by Apple. Peripherals carried by the Company include disk drives, CD–ROM drives, printers, video display monitors, plug-in circuit boards, modems and related products. GTSI's LAN hardware products are supplemented by the Company's LAN services, which include assisting customers in selecting, configuring, installing and maintaining LANs.

Software. The Company carries microcomputer software from virtually every leading MS–DOS and Windows microcomputer software vendor, as well as Sun workstation and Apple software from a number of leading software publishers. The Company sells packaged application software or licenses therefore, including word processing, database management, spreadsheet and graphics programs, for use on IBM, IBM-compatible microcomputers, Apple and Apple-compatible microcomputers, and on Sun and Hewlett–Packard Unix workstations, also specializes in complex software and service solutions such as customer relationship management, call center automation. Linux, and information assurance. The Company's software vendors include Microsoft, Adobe, Siebel Systems, Microstrategy.com, Avesta Technologies, Red Hat, Symantec IBM/Lotus, Informix, Corel, and Visio. GTSI also sells networking software, including Citrex and Novell products.

Marketing and Sales

The Company's marketing and sales personnel design and direct the Company's sales efforts and its market research, telemarketing and direct mail campaigns; Company-sponsored catalogues and seminars; advertising in specialty publications; and participation in major trade shows. GTSI provides training to its marketing and sales force on various government procurement processes and technical features of the products and services it offers. All sales personnel have been trained on, and have online access to, GTSI's computerized system for maintaining price, product availability, bid, ordering and order-status information.

From inception, GTSI recognized that the size and diversity of the government market made it imperative to identify and understand the needs of customers. Through years of intensive effort, GTSI has compiled and continuously updates one of the most comprehensive databases of federal, state and local government microcomputer users and their buying patterns. This proprietary, on-line computerized database currently contains over 235,000 entries, including an extensive list of agency procurement and contracting officers, information resource managers, end users, systems integrators, VARs and prime contractors. GTSI uses this database, among other things, for targeting telemarketing and direct mail campaigns. The Company conducts direct mail campaigns consisting of brochures, fliers, questionnaires, reply cards and other promotional items.

In addition to being an active participant in major federal and state government trade shows, GTSI sponsors and produces its own federal and state government seminars and agency-specific shows. GTSI designs these seminars and shows to provide training and information about microcomputers and workstations and related services that are of significant interest to government users. GTSI also produces its own "Expos" in which GTSI and specific agencies work together to showcase products to key end users and decision makers. These seminars, shows and expositions are supplemented by technical support hot lines, customer bulletin boards and an evaluation library of microcomputer and workstation product profiles, technical literature and demonstration hardware and software. The Company also offers simplified software upgrade policies designed specifically for the Government.

The Company publicly introduced its web site, GTSI Online (http:\\www.gtsi.com), on the world wide web in early 1995. In 1997 and 1998, the website provided access to certain product, contract and Company information. In the first quarter of 1999, the Company introduced its third generation website which consists of two sections. First, there is the electronic shopping section of the website that includes a smart shopping cart feature allowing the buyer to save and manage multiple shopping carts, a smart check-out feature which stores products from multiple contracts into a single shopping cart that are automatically split (with appropriate surcharges) upon check-out, and a smart quote feature which allows buyers to save, manage and e-mail multiple price quotes. Second, the site includes an information portal section that is designed to meet the information needs of the Government customer.

Vendor Relationships

In order to offer its customers a centralized source for their microcomputer and workstation needs, the Company establishes and maintains relationships with key vendors and offers them a number of profitable opportunities to expand their sales to the government market, including:

?? Access to the government market through a significant number of diverse contract vehicles;

?? Substantial relief from the cost of compliance with procurement regulations involved in selling directly to the government market;

?? Lower operating costs related to reduction or elimination of selling and marketing programs, and elimination of non-commercial billing and collection costs related to the government market; and

?? Participation in value-added services, including numerous government-specific marketing programs and end-user technical support.

The terms of the Company's agreements with its vendors vary widely, but typically permit the Company to purchase product for resale to at least the government market. Virtually none of the Company's vendor agreements requires the Company to purchase any specified quantities of product. The Company typically requires vendors acting as suppliers to GTSI under its term Government contracts to provide GTSI with supply and price protection for the duration of such contracts. Other than supply agreements under term Government contracts, the Company's vendor agreements are typically terminable by the vendor on short notice, at will or immediately upon default by GTSI and may contain limitations on vendor liability. These vendor agreements also generally permit GTSI to return previous product purchases at no charge within certain time limits, for a restocking fee up to 10% and/or in exchange for other products of such vendor. The Company also purchases some products from independent distributors.

Vendors provide the Company with various forms of marketing and sales assistance, including but not limited to sales incentives and market development funds. Vendors provide sell-through and other sales incentives in connection with certain product promotions. Additionally, key vendors participate with the Company in cooperative advertising and sales events and typically provide funding which offsets the costs of such efforts. A reduction in or discontinuance of any of these incentives or significant delays in receiving reimbursements could materially adversely affect the Company. The Company must continue to obtain products at competitive prices from leading vendors in order to provide a centralized source of price-competitive products for its customers and to be awarded government contracts. Although almost all of GTSI's vendors currently do not have all of their own computer products on a GSA Schedule contract, one or more may elect to apply for its own GSA Schedule contract and may do so at lower end-user selling prices than those GTSI currently offers or could profitably offer. Although GTSI believes its relationships with its key vendors to be good, a decision by one or more to sell directly to the Government (especially if at significantly lower prices than GTSI), to sell their products to GTSI's competitors on more favorable terms than to GTSI, to allow additional resellers to represent their products on a GSA Schedule contract, to restrict or terminate GTSI's rights to sell their products or restrict their products from being carried on a GSA Schedule contract, could materially adversely affect the Company.

Customers

The Company's customers are primarily federal, state and local government agencies and prime contractors to the Government, including systems integrators. In 1999, the Company sold products or services to thousands of different customers, including to most agencies and major departments of the

Government, to many state governments and to hundreds of prime contractors. Although no single customer accounted for greater than 5% of the Company's 1999 sales, aggregate 1999 sales to the Government's Departments of the Army, Navy and Air Force were 25.6.%, 12.4% and 10.4%, respectively, of GTSI's 1999 sales.

The Company's sales are highly dependent on the Government's demand for microcomputer and workstation products. Although the Company does not believe that the loss of any single customer would have a materially adverse effect on it, a material decline in its overall sales to the Government as a whole or to certain key agencies thereof could have such an effect. Reductions in DoD or other Government outlays could occur and may adversely affect the Company. Furthermore, legislation is periodically introduced in Congress that, if enacted, may change the Government's current procurement processes. GTSI cannot predict whether any such legislative or regulatory proposals will be adopted or, if adopted, the impact upon its operating results. Changes in the structure, composition and/or buying patterns of the Government could affect the Company's future operating results.

Backlog

At February 29, 2000, and December 31, 1999, the Company's total backlog of orders was approximately $55.0 million and $54.9 million, respectively, as compared with approximately $53.4 million and $59.7 million at February 28, 1999, and December 31, 1998, respectively. Total backlog consists of written purchase orders received and accepted by GTSI but not yet shipped. Backlog fluctuates significantly from quarter to quarter because of the seasonality of Government ordering patterns and the periodic inventory shortages resulting from constrained products.

Service and Warranty

GTSI provides post-sale field service for certain products that it sells primarily through subcontractors and to a limited extent through the Company's in-house technical staff. The Company typically warrants products sold to the Government and certain other customers for the same term as the manufacturer's warranty period although many IDIQ contracts include provisions for warranties that extend beyond those offered by the manufacturer. The Company also sells extended warranties on many of the government contracts. Product repaired while under the manufacturer's warranty is at the manufacturer's expense; product repaired after expiration of the manufacturer's and GTSI's warranty, if longer, is at the customer's expense. GTSI outsources to third parties a significant portion of its extended warranty obligations.

Competition

The government microcomputer and workstation market is intensely competitive and subject to rapid change. GTSI competes with certain leading microcomputer and/or workstation hardware manufacturers, which sell to the government market directly and/or through representatives other than the Company, and with a number of systems integrators, government and commercial resellers and commercial computer retail chains, distributors and VARs (including companies qualifying as minority-owned, disadvantaged or small businesses under applicable Government regulations) seeking to enter or expand their presence in the government market. In 1999, certain manufacturers selling directly to the Government have gained market share in the GSA schedule market. A number of GTSI's existing and potential competitors have greater financial, sales, marketing and technological resources than the Company.

The Company believes that the principal competitive factors in the government microcomputer market are price, expertise in the applicable government procurement processes, breadth of product line, customer and vendor relationships, financial strength, the technical and other skills of marketing and sales personnel, distribution capability, available inventory and customer service and support. The Company believes that the principal competitive factors in the government workstation market are essentially the same, except that technical expertise and customer service and support are often more important and breadth of product line and available inventory are often less important. The Company believes that it competes favorably on each of these factors, although to a lesser degree with respect to technical expertise. GTSI also believes that it has a competitive advantage over certain of its competitors because of its procurement expertise and avoidance of costly overhead related to selling into multiple market segments and maintaining numerous retail outlets. In addition, the Company's ability to offer a centralized source for purchases of a wide variety of leading computer products from numerous manufacturers often provides a competitive advantage over manufacturers who sell only their own line of products directly to the government.

Employees

At March 3, 2000, the Company had 521 employees, including 264 in sales, marketing and contract management; 153 in operations; and 104 in executive, finance, information technology, human resources and legal. None of the Company's employees is represented by a labor union, and the Company has experienced no labor-related work stoppages.

Item 2. PROPERTIES.

The Company's executive offices are located in an approximately 100,500-square foot facility in Chantilly, Virginia under a lease expiring in November 2009, with one five-year option. GTSI's warehousing and distribution operations are also located in Chantilly, Virginia in a separate 200,000-square foot facility under a lease expiring in December 2006. The Company also has a branch sales office occupying 139 square meters in Mannheim, Germany. The Company also subleases a 20,000 square foot distribution center in Chattanooga, Tennessee under a sublease, which expires on March 31, 2001.

Item 3. LEGAL PROCEEDINGS.

The Company is occasionally a defendant in litigation incidental to its business. The Company believes that none of such litigation currently pending against it, individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Inapplicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Stock Data. The Company's common stock trades on The Nasdaq Stock Market under the symbol "GTSI." As of December 31, 1999, there were 178 record holders of the Company's common stock. As of March 20, 2000, there were 179 record holders and approximately 1,500 beneficial holders of the Company's common stock. The following table sets forth, for the periods indicated, the high and low closing prices for the Company's common stock.

	1999		1998	
Quarter	High	Low	High	Low
First	$ 5 ¼	$ 3 3/16	$ 5 7/8	$ 4 ¾
Second	$ 4 ¼	$ 3 1/8	$ 5 7/16	$ 4 3/8
Third	$ 4 ¼	$ 3 1/8	$ 5 3/16	$ 3 ¾
Fourth	$ 3 ¾	$ 2 7/16	$ 5 ½	$ 2 ½

The Company has never paid cash dividends. It is the present policy of the Company to retain earnings to finance the growth and development of its business, and therefore the Company does not anticipate paying cash dividends on its common stock in the foreseeable future. Furthermore, certain financial covenants in the Company's bank credit agreement restrict the Company's ability to pay cash dividends.

Additional Investor Relations Information. All of the Company's current required filings with the Securities and Exchange Commission, as well as press releases and other investor relations information, may be found at **http://www.gtsi.com** on the internet's world wide web. For those without internet access, such information may be obtained without charge by request to the Company addressed to: Investor Relations, Government Technology Services, Inc., 3901 Stonecroft Boulevard, Chantilly, Virginia 20151–0808.

Transfer Agent. The Company's transfer agent is First Union National Bank, Shareholder Services Group, 1525 West W.T. Harris Blvd., 3C3, Charlotte, NC 28288–1153; telephone 1–800–829–8432.

Annual Meeting. The Annual Meeting of Stockholders is scheduled to be held at 9:00 a.m. on Tuesday, May 16, 2000, at the Company's headquarters located at 3901 Stonecroft Boulevard in Chantilly, Virginia.

Item 6. SELECTED FINANCIAL DATA.

The selected financial data for the three years ended December 31, 1999, 1998 and 1997 are derived from, and are qualified in their entirety by reference to, the Company's audited Financial Statements and Notes thereto included elsewhere in this Form 10–K. The December 31, 1999, 1998 and 1997 Financial Statements of the Company have been audited by Arthur Andersen LLP, independent accountants, as indicated in their report, which is also included elsewhere in this Form 10–K. The selected financial data for all other periods are derived from audited financial statements of the Company, which are not included in this Form 10–K.

(In thousands, except per share amounts)	Twelve months ended December 31,				
	1999	1998	1997	1996 (1)	1995 (2)
Income Statement Data:					
Sales	$ 668,488	$ 605,884	$ 486,377	$ 491,642	$ 526,962
Cost of sales	618,381	554,247	450,454	458,510	488,348
Gross margin	50,107	51,637	35,923	33,132	38,614
Operating expense:					
Selling, general and administrative	44,931	44,660	36,940	38,008	39,645
Depreciation and amortization	3,584	3,661	3,539	13,456	3,090
Restructuring charges	-	-	-	-	2,953
Total operating expenses	48,515	48,321	40,479	51,464	45,688
Income (loss) from operations	1,592	3,316	(4,556)	(18,332)	(7,074)
Interest (income) expense, net	(1,090)	977	548	1,537	4,538
Income (loss) before taxes	2,682	2,339	(5,104)	(19,869)	(11,612)
Income tax provision (benefit)	-	-	-	(2,031)	(4,435)
Net income (loss)	$ 2,682	$ 2,339	$ (5,104)	$ (17,838)	$ (7,177)
Earnings (loss) per share (basic)	$ 0.29	$ 0.27	$ (0.76)	$ (2.67)	$ (1.09)
Earnings (loss) per share (diluted)	$ 0.29	$ 0.26	$ (0.76)	$ (2.67)	$ (1.09)
Weighted average number of common and Common equivalent shares outstanding (basic)	9,271	8,700	6,733	6,690	6,604
Weighted average number of common and Common equivalent shares outstanding (diluted)	9,314	8,909	6,733	6,690	6,604

(1) The year ended December 31, 1996 includes a pretax charge of $9.1 million ($8.2 million after tax, or $1.22 per share) related to the impairment of intangible assets acquired as part of the acquisition of Falcon in 1994.

(2) The year ended December 31, 1995 includes a pretax charge of $7.9 million ($4.9 million after tax, or $0.74 per share) associated with the valuation of inventory and receivables, software licenses, headcount reductions and the consolidation of certain office and warehouse facilities.

(In thousands)	December 31,				
	1999	1998	1997	1996	1995
Balance Sheet Data:					
Working capital	$ 44,350	$ 42,206	$ 30,860	$ 34,599	$ 45,597
Total assets	186,333	161,090	137,464	141,001	197,318
Notes payable to banks	9,479	14,889	21,569	15,828	56,496
Total liabilities	133,137	105,766	97,590	96,153	134,841
Stockholders' equity	53,196	55,324	39,874	44,848	62,477

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the Financial Statements and Notes. Historical results and percentage relationships among any amounts in the Financial Statements are not necessarily indicative of trends in operating results for any future period.

Overview

Government Technology Services, Inc. ("GTSI" or the "Company") is a leading business to Government marketer (B2G) of microcomputer and Unix workstation hardware, software and networking products to the Federal government market. The Company currently offers access to over 150,000 information technology products from more than 2,100 manufacturers. GTSI also performs network integration services, including configuring, installing and maintaining microcomputers in local area networks. The Company sells to virtually all departments and agencies of the Government, many state governments and several hundred systems integrators and prime contractors that sell to the government market. GTSI offers its customers a convenient and cost-effective centralized source for microcomputer and workstation products through its competitive pricing, broad product selection and procurement expertise. The Company provides its vendors with a low-cost marketing and distribution channel to the millions of end users comprising the government market, while virtually insulating these vendors from most of the complex government procurement rules and regulations.

Changes in sales throughout the Company's history have been attributable to increased or decreased unit sales, to expansion of the Company's product offerings (e.g., peripherals, microcomputers and networking and workstation products, from 1985 through 1992); to the addition of new vendors (e.g., IBM, Sun, Panasonic, Apple and Nexar, from 1988 through 1996, and Cisco in 1998); and to the addition or expiration of sales contract vehicles (e.g., the addition of the SEWP II Contract, the NIH ECS-II Contract, the TDA–1 Contract and STAMIS Contract, and the expiration of the Companion Contract in 1995 and Desktop IV systems ordering in 1996). The Company's financial results have fluctuated seasonally, and may continue to do so in the future, because of the Government's buying patterns which have historically favorably impacted the last two calendar quarters and adversely affected the first two calendar quarters.

The Company's primary strategy is to focus on its core GSA Schedule and IDIQ business and to compete aggressively on bids in order to win as many contract vehicles as possible under the various purchasing programs available to it in the government market. With these contract vehicles in place, it is then possible for the Company to use its significant product base and marketing knowledge to sell products which meet customers' requirements.

Results of Operations

The following table sets forth, for the years indicated, the percentages that selected items within the income statement bear to sales, and the annual percentage changes in the dollar amounts of such items.

	Percentage of Sales			Percentage Change	
	Years Ended December 31,			Years Ended December 31,	
	1999	1998	1997	1998 to 1999	1997 to 1998
Income Statement Data:					
Sales	100.0%	100.0%	100.0%	10.3%	24.6%
Cost of sales	92.5%	91.5%	92.6%	11.6%	23.0%
Gross margin	7.5%	8.5%	7.4%	(3.0)%	43.7%
Operating expense:					
Selling, general and administrative	6.8%	7.4%	7.6%	0.6%	20.9%
Depreciation and amortization	0.5%	0.6%	0.7%	(2.1)%	3.4%
Total operating expenses	7.3%	8.0%	8.3%	0.4%	19.4%
Income (loss) from operations	0.2%	0.6%	(0.9)%	(52.0)%	(172.8)%
Interest (income) expense, net	(0.2)%	0.1%	0.1%	(211.6)%	78.3%
Income (loss) before taxes	0.4%	0.5%	(1.0)%	14.7%	(145.8)%
Income tax provision	-	-	-	-	-
Net income (loss)	0.4%	0.5%	(1.0)%	14.7%	(145.8)%

The following tables set forth, for the periods indicated, the approximate sales by product, by contract vehicle and by vendor, along with related percentages of total sales.

Product Category	Years Ended December 31,					
(Dollars in millions)	1999		1998		1997	
Hardware	$ 514.4	76.9%	$ 474.7	78.3%	$ 430.1	88.5%
Software	131.6	19.7%	94.6	15.6%	55.1	11.3%
Services	22.5	3.4%	36.6	6.1%	1.2	0.2%
Total	$ 668.5	100.0%	$ 605.9	100.0%	$ 486.4	100.0%

Contract Vehicles	Years Ended December 31,					
(Dollars in millions)	1999		1998		1997	
GSA Schedules	$ 268.3	40.1%	$ 199.8	33.0%	$ 208.8	42.9%
IDIQ Contracts	308.5	46.2%	319.3	52.7%	148.6	30.6%
Open Market	76.8	11.5%	68.6	11.3%	107.3	22.1%
Other Contracts	14.9	2.2%	18.2	3.0%	21.7	4.4%
Total	$ 668.5	100.0%	$ 605.9	100.0%	$ 486.4	100.0%

Vendor Category	Years Ended December 31,					
(Dollars in millions)	1999		1998		1997	
Hewlett-Packard	$ 166.4	24.9%	$ 138.1	22.8%	$ 105.6	21.7%
Microsoft	83.7	12.5%	68.3	11.3%	46.8	9.6%
Panasonic	68.5	10.2%	53.4	8.8%	53.8	11.1%
Compaq	51.6	7.7%	62.9	10.4%	54.2	11.1%
SUN	47.5	7.1%	20.3	3.3%	21.4	4.4%
Cisco	34.0	5.1%	30.0	5.0%	3.9	0.8%
Everex	15.0	2.3%	27.2	4.5%	14.6	3.0%
Dell	11.3	1.7%	16.5	2.7%	8.0	1.6%
Toshiba	11.1	1.7%	14.1	2.3%	14.4	3.0%
Other	179.4	26.8%	175.1	28.9%	163.7	33.7%
Total	$ 668.5	100.0%	$ 605.9	100.0%	$ 486.4	100.0%

1999 Compared with 1998

Sales. Sales consist of revenues from product shipments and services rendered, net of allowances for customer returns and credits. Net sales in 1999 increased $62.6 million, or 10.3% over 1998. The primary reason for the increase was higher sales under the Company's GSA schedules and Open Market sales of approximately $68.5 million, or 34.3%, and $8.2 million, or 12.0%, respectively. The increase is partially offset by lower sales under indefinite-delivery/indefinite-quantity ("IDIQ") contracts of approximately $10.8 million, or 3.4%, and lower sales on other contracts of $3.3 million, or 18.1%. The decline in IDIQ sales is primarily attributable to the replacement of the TDA-1 IDIQ contract sales of $27.6 million in 1998 with the TDA BPA agreement sales of $25.4 million in 1999. In 1996, GSA expressly authorized agencies to procure from GSA schedule holders under BPA's which incorporate many terms and conditions of the GSA schedule contracts. Additionally, BPA's offer many of the same products as GSA schedules, often at lower prices than available on GSA schedules. In response to GSA's authorization, the Company has increased its emphasis on BPA's.

Sales under GSA contracts increased primarily as a result of TDA Bridge BPA sales of $25.4 million, which replaced the expired 1998 TDA-1 IDIQ contract. Additional increases result from increased sales under the Army Microsoft Upgrade BPA contract of $20.2 million; and increased sales under the Enhanced Technology contract of $9.4 million resulting from a full year effect of this contract which was awarded in April, 1998; and increased overall emphasis on BPA's.

Total booked backlog at December 31, 1999 was approximately $54.9 million compared to $59.7 million at December 31, 1998. Total booked backlog was $55.0 million at February 29, 2000, up 1.6 million or 3.0% compared to February 28, 1999. Booked backlog represents orders received but product has yet to ship.

Gross Margin. In 1999, gross margin decreased in absolute dollars by $1.5 million, or 3.0%, and decreased as a percentage of sales to 7.5% from 8.5%, when compared to 1998. Margins in 1999 were affected by a combination of the replacement of several existing contracts by competitive wins and continued downward pressure on personal computer margins. Although the gross margin in 1999 is below the gross margin in 1998, the gross margin in 1998 included the beneficial effect of a one-time $2.2 million inventory valuation adjustment. Removal of this inventory adjustment results in a pro-forma gross margin of 8.2% for 1998.

Operating Expenses. Total operating expenses for 1999 increased $194,000, or 0.4%, compared to 1998, but as a percentage of sales, operating expenses decreased to 7.3% from 8.0%. Operating expenses, at $48.5 million in 1999, were relatively equal with operating expenses of $48.3 in 1998. Although total operating expenses were relatively flat compared to 1998, personnel costs increased by $3.5 million, or 12.5% due to expanded sales and program management and support coverage due to the acquisition of new contract vehicles as well as an emphasis on revenue growth. This increase was substantially offset by reductions in advertising, consulting, and rent. Advertising expense was reduced by $2.1 million, or 33.4%, compared to 1998 primarily related to the Company's discontinued catalog business along with the better management of show related costs. Consultant expense was reduced by $907,000, or 40.8%, in transitioning functions internally to Company personnel. Rent expense was reduced $650,000, or 54.2% due to better negotiated lease terms related to the Company's move to its new headquarters in November of 1998.

Interest Expense. Net interest expense is the amount of interest expense on borrowings offset by interest income and prompt payment discounts. Net interest expense decreased by $2.1 million, or 211.6% in 1999 compared to 1998. The Company utilized more prompt payment discounts and reduced average borrowings as compared to the same period in 1998. The reduced average borrowing was primarily due to improved cash flow from the increased collections emphasis on aged accounts receivables. Average days sales outstanding ("DSO") decreased 5 days to 47 in 1999 from 52 in 1998. Average borrowing was also reduced by the increase of credit card sales which allows for the immediate collection of invoices.

Income Taxes. No provision for income tax has been recognized with respect to the Company's income from operations for 1999 due to the reversal of tax valuation allowance that fully offset the Company's current tax expenses for 1999.

1998 Compared With 1997

Sales. Sales consist of revenues from product shipments and services rendered net of allowances for customer returns and credits. During 1998, net sales increased $119.5 million, or 24.6% over 1997. The primary reason for the increase was higher sales under the Company's IDIQ contracts of approximately $170.7 million, or 115%. The increase in IDIQ contracts was partially offset by decreased GSA schedule sales and Open Market sales of approximately $9.0 million, or 4.3% and $38.7 million, or 36.1%, respectively. Management believes that the decline in Open Market sales is primarily attributable to recent changes in the procurement regulations that allow the Government to purchase products by other means (e.g. GSA schedule contracts, Government-wide Agency Contract ("GWAC"), Blanket Purchase Agreements ("BPA's")) in a quicker and easier manner than was the case before such changes. In addition, the decrease in sales under GSA schedule contracts can be attributed primarily to decreased sales relating to GSA Schedule B/C contract of $33.3 million offset by an increase in BPA sales of $28.1 million from the same period last year. In 1996, GSA schedule contracts expressly authorized agencies to procure from schedule holders under BPA's which incorporate many terms and conditions of the GSA schedule contracts. Additionally, BPA's offer many of the same products as GSA schedules, often at lower prices than available on GSA schedules. In response to GSA's authorization, the Company has increased its emphasis on BPA's.

Sales under IDIQ contracts increased primarily as result of increased sales under contracts with the State Department, the Army's PC-2 and the Tennessee Valley Authority, totaling $91.4 million. The Company performs, as a subcontractor, under these contracts as a result of the acquisition of the BTG Division. In addition, the Company's contract with the U.S. Army's Standard Army Management Information Systems ("STAMIS") Computer Contract II, which was awarded in November 1997, produced sales of $35.6 million during 1998.

Total booked backlog at December 31, 1998 was approximately $59.7 million compared to $38.4 million at December 31, 1997. Total booked backlog was $53.4 million at February 28, 1999, up $6.5 million or 13.9% compared to February 28, 1998. Booked backlog represents orders received but product has yet to ship.

Gross Margin. In 1998, gross margin increased in absolute dollars $15.7 million, or 43.7%, and increased as a percentage of sales from 7.4% to 8.5%, when compared to 1997. The increase in gross margin was impacted by an inventory adjustment of approximately $2.2 million resulting from a June 1998 physical inventory valuation. Gross margin for 1998 was 8.2%, excluding the impact of the inventory adjustment. In addition, gross margins were favorably impacted by change in the Company's mix of contract vehicles. Gross margins for 1998, were also impacted by the realization of greater contract price protection credits offset by increased warranty maintenance expense. The change in gross margin percentage can be impacted by a variety of factors and is not necessarily indicative of gross margin percentages to be earned in the future periods.

Operating Expenses. Total operating expenses for 1998 increased $7.8 million, or 19.4% compared to 1997. This increase was due primarily to increased personnel cost as a result of the BTG Division acquisition, as well as increases in the overall volume of the business. In addition, the Company incurred approximately $1.0 million of operating costs associated with the acquisition of the BTG Division. Total operating expenses, as a percentage of total sales decreased from 8.3% to 8.0%, reflecting the Company's growth in sales requiring less additional infrastructure expenses as existing facilities and personnel are utilized more effectively.

Interest Expense. Net interest expense is the amount of interest expense on borrowings offset by interest income and prompt payment discounts. The net interest expense increased approximately $429,000, or 78.3% for the year ended December 31, 1998 compared to the same period in 1997. This increase was due primarily to increased average borrowings as a result of increased sales volumes, as well as additional borrowings required for the BTG Division acquisition. In addition, during 1998 the Company utilized more prompt payment discounts as compared to the same period in 1997.

Income Taxes. No provision for income tax has been recognized with respect to the Company's income from operations for 1998 due to the reversal of the deferred tax valuation allowance that fully offset the Company's current tax expenses for 1998.

New Accounting Pronouncements

SFAS 128, "Earnings Per Share," and SFAS 129, "Disclosure of Information about Capital Structure," were adopted by the Company in the fourth quarter of 1997, with no material effect on the Company's consolidated financial statement presentation.

SFAS 130, "Reporting Comprehensive Income," was adopted by the Company in 1998 and in accordance therewith, the Company's Comprehensive Income equals reported Net Income (Loss).

SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," was adopted by the Company in the fourth quarter of 1998.

Effect of Inflation

The Company believes that inflation has not had a material effect on its operations. However, in the event inflation increases in the future it could temporarily adversely affect the profitability of GTSI's sales under its Government fixed-price contracts, which generally preclude the Company from passing on inflation-related or other increases in product costs to Government customers during the term of a pre-existing contract. The Company mitigates this risk in part by often obtaining agreements from certain of its suppliers prohibiting them from increasing their prices to GTSI during fixed-price, term contracts.

Seasonal Fluctuations and Other Factors

The Company has historically experienced and expects to continue to experience significant seasonal fluctuations in its operations as a result of Government buying and funding patterns, which also impact the buying patterns of GTSI's prime contractor customers. These buying and funding patterns historically have had a significant positive effect on GTSI's bookings in the third quarter ending September 30 each year (the Government's fiscal year end), and consequently on sales and net income in the third and fourth quarters of each year. Quarterly financial results are also affected by the timing of the award of and shipments of products under government contracts, price competition in the microcomputer and workstation industries, the addition of personnel or other expenses in anticipation of sales growth, product line changes and expansions, and the timing and costs of changes in customer and product mix. In addition, customer order deferrals in anticipation of new product releases by leading microcomputer and workstation hardware and software manufacturers, delays in vendor shipments of new or existing products, a shift in sales mix to more complex requirements contracts with more complex service costs, and vendor delays in the processing of incentives and credits due GTSI, have occurred (all of which are also likely to occur in the future) and have adversely affected the Company's operating performance in particular periods. The seasonality and the unpredictability of the factors affecting such seasonality make GTSI's quarterly and yearly financial results difficult to predict and subject to significant fluctuation. The Company's stock price could be adversely affected if any such financial results fail to meet the financial community's expectations.

Additionally, legislation is periodically introduced in Congress that may change the Government's procurement practices. GTSI cannot predict whether any legislative or any regulatory proposals will be adopted or, if adopted, the impact upon its operating results. Changes in the structure, composition and/or buying patterns of the Government, either alone or in combination with competitive conditions or other factors, could adversely affect future results.

Liquidity and Capital Resources

During 1999, the Company's operating activities generated approximately $10.3 million of cash flow, compared to $10.5 million for 1998. The decrease was primarily due to the Company's increase in accounts receivables relating to increased revenues from 1998 to 1999 and better collection efforts leading to a lower allowance for uncollectible balances. The decreased operating cash flow from the increase in accounts receivables was partially offset by a corresponding increase in accounts payable. Investing activities used cash of approximately $4.9 million during 1999. The Company's financing activities used approximately $5.3 million of cash flow during 1999 due to a reduction in the Company's outstanding borrowing under its line-of-credit.

On May 2, 1996, the Company executed a three-year credit facility with a bank (the "Principal Lender") for $40.0 million and a one-year credit facility with the other lenders for an additional $55.0 million (collectively, the "Credit Facility"). Additionally, on June 27, 1996, the Company executed a separate $10.0 million facility with the Principal Lender for inventory financing of vendor products (the "Wholesale Financing Facility").

On July 28, 1997, the Company and its banks executed the Second Amended and Restated Business Credit and Security Agreement (the "Credit Agreement") to modify some of the terms and conditions, as well as the amounts available under the Credit Facility and the Wholesale Financing

Facility. These modifications included the revision of the Credit Facility's term to one year with a one year automatic renewal.

On March 31, 1999, the Second Amended and Restated Business Credit Agreement of July 28, 1997 was amended to make the Tangible Net Worth requirement for the Company an amount no less than $40 million at all times beginning the calendar quarter ending March 31, 1999 and each calendar quarter thereafter. All other material terms of the Credit Agreement remained the same.

On November 24, 1999, the Company and its banks executed separate amendments, effective December 1, 1999, for the continuation of the Credit Agreement through November 30, 2000 with an automatic one year renewal, and adjusting, among other things, the seasonality of the amount available under the Credit Facility. The limit of the Credit Facility is $50 million during the period July 1 through January 31. During the period February 1 through April 30, the total amount available under the Credit Facility is limited to $30 million. During the period May 1 though June 30, the total amount available under the Credit Facility is $20 million. In addition, the interest rate under the Credit Facility is a rate of the London Interbank Offered Rate (LIBOR) plus 1.75%. The Wholesales Financing Facility was also amended effective December 1, 1999 to $50.0 Million throughout the fiscal year.

As of December 31, 1999, 1998, and 1997, respectively, the Company's interest rate on the Credit Facility was 8.24%, 7.83% and 8.89%, respectively. Amounts due to the Lenders as of December 31, 1999 are classified as current liabilities and the available portion of the Credit Facility at December 31, 1999 was approximately $14.7 million down from $24.4 million at December 31, 1998.

Borrowing is limited to 85% of eligible accounts receivable. The Credit Facility is secured by substantially all of the operating assets of the Company. Current obligations are first funded and then all cash receipts are automatically applied to reduce outstanding borrowings. The Credit Facility also contains certain covenants that include restrictions on the payment of dividends and the repurchase of the Company's Common Stock, as well as provisions specifying compliance with certain quarterly and annual financial statistical ratios. At December 31, 1999, the company was in compliance with all financial covenants set forth in the credit facility.

Item 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Inapplicable.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

The renegotiation of the financial covenants contained in the Credit Facility, and the statements which are not historical facts contained in this Management's Discussion and Analysis of Financial Condition, Results of Operations and Notes to Consolidated Financial Statements, are forward-looking statements that involve certain risks and uncertainties. Actual results may differ materially based on numerous factors, including but not limited to competition in the government markets, spending patterns of the Company's customers, general economic and political conditions, success of negotiations with the Company's Lenders, changes in government procurement regulations, impact of the Year 2000 issue on the Company's business, and other risks described in this Annual Report on Form 10–K and in the Company's other Securities and Exchange Commission filings.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Consolidated Financial Statements and Schedule of Government Technology Services, Inc. and Subsidiary are filed as part of this Form 10–K. Supplemental quarterly financial information is included in Note 9 of Notes to Consolidated Financial Statements.

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Government Technology Services, Inc.:

We have audited the accompanying consolidated balance sheets of Government Technology Services, Inc. and subsidiary (a Delaware corporation) as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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, the financial statements referred to above present fairly, in all material respects, the financial position of Government Technology Services, Inc. and subsidiary as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index of financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Vienna, Virginia
February 23, 2000

GOVERNMENT TECHNOLOGY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)	December 31, 1999	December 31, 1998
ASSETS		
Current assets:		
Cash	$ 149	$ 39
Accounts receivable, net	125,179	106,334
Merchandise inventories	41,483	36,544
Other current assets	6,057	3,099
Total current assets	172,868	146,016
Property and equipment, net	12,627	11,381
Intangible assets, net	-	114
Other assets	838	3,579
Total assets	$ 186,333	$ 161,090
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable to banks	$ 9,479	$ 14,889
Note payable, current	500	-
Accounts payable	103,871	75,806
Accrued warranty liabilities	9,135	6,409
Other accrued expenses	5,533	6,706
Total current liabilities	128,518	103,810
Notes payable, net of current portion	1,500	-
Other liabilities	3,119	1,956
Total liabilities	133,137	105,766
Stockholders' equity		
Preferred Stock - $0.25 par value, 680,850 shares authorized; none issued or outstanding	-	-
Common stock - $0.005 par value 20,000,000 shares authorized, 9,806,084 issued and 9,235,043 outstanding at December 31, 1999; and 20,000,000 shares Authorized, 9,806,084 issued and 9,799,490 outstanding at December 31, 1998	49	49
Capital in excess of par value	43,687	45,712
Retained earnings	12,316	9,634
Treasury stock, 571,041 shares at December 31, 1999 and 6,594 shares at December 31, 1998, at cost	(2,856)	(71)
Total stockholders' equity	53,196	55,324
Total liabilities and stockholders' equity	$ 186,333	$ 161,090

GOVERNMENT TECHNOLOGY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)	For the years ended December 31, 1999	1998	1997
Sales	$ 668,488	$ 605,884	$ 486,377
Cost of sales	618,381	554,247	450,454
Gross margin	50,107	51,637	35,923
Operating expenses	48,515	48,321	40,479
Income (loss) from operations	1,592	3,316	(4,556)
Interest and financing income	(1,742)	(541)	(1,326)
Interest expense	652	1,518	1,874
Interest (income) expense, net	(1,090)	977	548
Income (loss) before income taxes	2,682	2,339	(5,104)
Income tax provision	-	-	-
Net income (loss)	$ 2,682	$ 2,339	$ (5,104)
Basic net income (loss) per share	$ 0.29	$ 0.27	$ (0.76)
Diluted net income (loss) per share	$ 0.29	$ 0.26	$ (0.76)
Basic weighted average shares outstanding	9,271	8,700	6,733
Diluted weighted average shares outstanding	9,314	8,909	6,733

GOVERNMENT TECHNOLOGY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the years ended December 31, 1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 2,682	$ 2,339	$ (5,104)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,584	3,661	3,539
Loss (gain) on disposal of property and equipment	288	-	(340)
(Decrease) increase in cash due to changes in assets and liabilities:			
Accounts receivable	(21,702)	(15,429)	(789)
Merchandise inventories	(4,939)	9,408	(1,156)
Other assets	(217)	(2,306)	2,466
Accounts payable	28,389	8,086	(987)
Other accrued expenses and warranty liabilities	1,553	3,333	(2,206)
Other liabilities	657	1,439	1,530
Net cash provided by (used in) operating activities	10,295	10,531	(3,047)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cost of property and equipment	(5,004)	(4,827)	(2,377)
Payments related to purchase of BTG Division	-	(7,826)	-
Payments from BTG settlement	132	-	-
Proceeds from sales of property and equipment	-	-	361
Net cash used in investing activities	(4,872)	(12,653)	(2,016)
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Payments of) proceeds from bank notes, net	(5,410)	1,146	5,741
Proceeds from exercises of stock options	97	159	130
Net cash (used in) provided by financing activities	(5,313)	1,305	5,871
Net increase (decrease) in cash	110	(817)	808
Cash at beginning of year	39	856	48
Cash at end of year	$ 149	$ 39	$ 856
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 571	$ 2,114	$ 2,744
Income taxes	$ -	$ 2,553	$ 7

GOVERNMENT TECHNOLOGY SERVICES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 1999, 1998 and 1997

	Preferred Stock		Common Stock					
(In thousands)	Shares Issued	Amount	Shares Issued	Amount	Capital in Excess of Par	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1996	-	$ -	6,806	$ 34	$ 33,295	$ 12,399	$ (880)	$ 44,848
Stock awards and options exercised	-	-	-	-	(209)	-	339	130
Net loss	-	-	-	-	-	(5,104)	-	(5,104)
Balance, December 31, 1997	-	$ -	6,806	$ 34	$ 33,086	$ 7,295	$ (541)	$ 39,874
Stock awards and options exercised	-	-	-	-	(326)	-	470	144
Acquisition of BTG Division-issuance of Preferred Stock	15,375	15,375	-	-	-	-	-	-
Acquisition of BTG Division-conversion of Preferred Stock into Common Stock	(15,375)	(15,375)	3,000	15	12,952	-	-	12,967
Net income	-	-	-	-	-	2,339	-	2,339
Balance, December 31, 1998	-	$ -	9,806	$ 49	$ 45,712	$ 9,634	$ (71)	$ 55,324
Stock awards	-	-	-	-	(81)	-	178	97
BTG settlement - purchase of Treasury Stock and repurchase option	-	-	-	-	(1,944)	-	(2,963)	(4,907)
Net income	-	-	-	-	-	2,682	-	2,682
Balance, December 31, 1999	-	$ -	9,806	$ 49	$ 43,687	$ 12,316	$ (2,856)	$ 53,196

GOVERNMENT TECHNOLOGY SERVICES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Government Technology Services, Inc. ("GTSI") operates in a single business segment and resells microcomputer and workstation hardware, software and peripherals to agencies of federal, state and local governments. Business activities also include sales to systems integrators, prime contractors and other companies reselling information technology to various government agencies. In August 1994, GTSI acquired all of the outstanding shares of common stock of Falcon Microsystems, Inc. ("Falcon"). GTSI and Falcon are hereinafter referred to as the "Company."

Acquisition of BTG Division

On February 12, 1998, the Company entered into and closed on an Asset Purchase Agreement with BTG, Inc. and two of its subsidiaries (collectively, "BTG") under which the Company acquired substantially all of the assets of the BTG division that resells computer hardware, software and integrated systems to the Government (the "BTG Division"). The acquired assets consisted primarily of inventory and rights under certain contracts and intangible personal property, along with furniture, fixtures, supplies and equipment. In addition, the Company assumed certain liabilities under specified contracts of BTG as well as certain liabilities arising from the ownership or operation of the acquired assets after the closing. The Company paid at closing $7,325,265 in cash (after a $174,735 adjustment for accrued vacation liability and satisfaction of an outstanding invoice owed by BTG) and issued 15,375 shares, having a liquidation preference of $15,375,000, of a new series of preferred stock designated as Series C 8% Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"). The Company paid an additional $500,000 in cash upon the release of liens on certain items of equipment which are part of the acquired assets. A portion of the consideration, $800,000 in cash and 1,538 shares of Series C Preferred Stock, was held under an escrow agreement to secure BTG's indemnification obligations under the Asset Purchase Agreement. Under the Asset Purchase Agreement, BTG was obligated to repay to the Company up to $4.5 million to the extent that there was a shortfall in the amounts that the Company received from dispositions of certain inventory acquired.

The acquisition of the BTG division was accounted for using the purchase method of accounting. The purchase price was allocated to tangible assets based on fair market value. The financial statements include the results of operation of the BTG Division since the acquisition date.

The following table sets forth the unaudited pro forma results of the operations of the Company and the BTG Division for the years ended December 31, 1998 and 1997, assuming the acquisition occurred on January 1, 1997. Net income for 1998 excludes approximately $1 million of nonrecurring cost and $270,000 of interest expense directly attributable to the acquisition.

(In thousands, except per share data)	(unaudited) 1998	1997
Revenues	$ 647,021	$ 913,923
Net income (loss)	$ 1,970	$ (6,763)
Basic income (loss) per share	$ 0.23	$ (0.78)
Diluted income (loss) per share	$ 0.22	$ (0.78)

The pro forma results are not indicative of the results of operations had the acquisition taken place on January 1, 1997.

Subsequent to the closing, BTG delivered to the Company certain other inventory ("Surplus Inventory"). By letter dated May 15, 1998, the Company and BTG agreed that BTG would invoice GTSI an aggregate of $3,912,419 for Surplus Inventory. In addition, BTG agreed to pay to the Company $1 million on June 30, 1998, which constituted full and complete payment for any inventory shortfall as described in the Asset Purchase Agreement, as well as $250,000 for costs associated with processing the Surplus Inventory.

Pursuant to the Asset Purchase Agreement, the Company agreed to convene a meeting of stockholders no later than January 1, 1999 to approve a proposal to convert the Series C Preferred Stock into 3,000,000 shares of Common Stock (the "Conversion Proposal"), and a proposal to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock from 10,000,000 to 20,000,000 (the "Charter Amendment Proposal"). At the Company's annual meeting of stockholders held on May 12, 1998, the Company's stockholders approved the Conversion Proposal and the Charter Amendment Proposal. The Series C Preferred Stock was converted automatically into 3,000,000 shares of Common Stock valued at $5.125 per share and which, pursuant to the exemption provided under Section 4(2) of the Securities Act of 1933, as amended ("Securities Act"), were not registered under the Securities Act.

On February 10, 1999, the Company entered into subsequent agreements with BTG. The agreements relate to the reacquisition of stock by GTSI from BTG, the terms of certain contracts and the relationship of the parties going forward. Pursuant to the agreements, GTSI reacquired 600,000 shares of its stock from BTG. Of the 600,000 shares, 200,000 were tendered to GTSI at no cost and 400,000 were purchased by GTSI for $5.00 per share, in exchange for a three-year, 8% interest bearing note from BTG with the principal due in three annual installments of $500,000, $500,000 and $1,000,000, respectively. As part of the agreements, GTSI has an exclusive five-year option to purchase the remaining 1.3 million shares of GTSI stock held by BTG for $5.25 per share. Under the February 12, 1998 Asset Purchase Agreement, BTG is precluded from selling any of its holdings, with certain limited exceptions, to a third party for six years without GTSI's prior consent. Under the February 10, 1999 agreement, GTSI must consent to a sale by BTG of their stock to any third party. If GTSI consents to such a sale, BTG is obligated to pay GTSI $0.50 per share on any shares sold by BTG.

As a result of the agreement, BTG transferred to GTSI all of the cash portion of the February 12, 1998 escrow, totaling $827,219, and BTG's ownership interest in GTSI was reduced to 13.3%. Consequently, BTG forfeited its right to representation on the GTSI Board and Dr. Edward H. Bersoff, Chief Executive Officer of BTG, resigned from the GTSI Board. The agreements also provide that BTG will novate certain contracts that GTSI had been performing in the capacity of a subcontractor, and halts all royalty payments by GTSI to BTG after December 31, 1998.

1. Accounting Policies

Significant accounting policies of the Company are summarized below:

Basis of Consolidation. The consolidated financial statements include the accounts of GTSI and its wholly-owned subsidiary, Falcon. All significant intercompany accounts and transactions are eliminated in consolidation.

Accounting Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates and the Company periodically re-evaluates the recorded values of all assets and liabilities. The most significant estimates include the allowance for doubtful accounts and reserves for future costs to be incurred under the Company's warranty programs.

Revenue Recognition. The Company recognizes revenue upon shipment of products and/or acceptance of services rendered.

Financial Instruments. At December 31, 1999, 1998 and 1997, the recorded values of financial instruments such as accounts receivable and payable and notes payable to banks approximated their fair values, based on the short-term maturities of these instruments.

Accounts Receivable. Accounts receivable principally represents amounts collectible from the Federal Government and prime contractors to the Federal Government. Other accounts receivable result from items billed to suppliers under various agreements involving the sale of their products. The Company performs ongoing credit evaluations of its non-governmental customers but generally does not require collateral to support any outstanding obligation owed to GTSI. Allowances for potential uncollectible amounts are estimated and deducted from total accounts receivable.

Merchandise Inventories. Merchandise Inventories are valued at the lower of cost or market. Cost is determined using a weighted average method.

Property and Equipment. Property and equipment are stated at cost less accumulated depreciation. Depreciation and amortization are calculated using the straight-line method over estimated useful lives ranging from three to ten years. Leasehold improvements are amortized using the straight-line method over the terms of the leases or their estimated useful lives, whichever is shorter.

Intangible Assets. Intangible assets are recorded at cost and amortized using the straight-line method over their estimated useful lives.

Impairment of Long-Lived Assets. The Company evaluates long-lived assets to be held for events or changes in circumstances that would indicate that the carrying value may not be recoverable. In making that determination, the Company considers a number of factors, including undiscounted future cash flows, prior to interest expense. The Company measures an impairment loss by comparing the fair value of the assets to their carrying value.

Income Taxes. Deferred income taxes are recognized based on the estimated future tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are established when necessary to reduce deferred tax assets to amounts expected to be realized. Income tax expense represents the current tax provision for the period and the change during the period in deferred tax assets and liabilities.

Earnings Per Share. Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") 128, "Earnings Per Share," which requires dual presentation of basic and diluted earnings per share on the face of the income statement for all periods presented. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Options to purchase approximately 284,000 weighted average shares of Common Stock at December 31, 1997 were not included in the computation of earnings per share due to their anti-dilutive effect.

Marketing Development and Cooperative Advertising Funds. Certain vendors provide the Company with sales incentive programs. Generally, the funds received under these programs are determined based on the Company's purchases and/or sales of the vendor's product. The funds are earned upon performance of specific promotional programs or upon completion of predetermined objectives dictated by the vendor. Once earned, the funds reduce associated expenses of promotional programs.

Check Overdrafts. Included in accounts payable at December 31, 1999, 1998 and 1997, are approximately \$9.1 million, \$7.4 million and \$2.0 million, respectively, which represent checks that have been issued but have yet to clear the bank.

Reclassifications. Certain amounts from prior years have been reclassified to conform to the current year financial statement presentation.

2. Accounts Receivable

The composition of accounts receivable as of December 31, 1999 and 1998 is as follows (in thousands):

	1999	1998
Trade accounts receivable	$ 109,130	$ 93,750
Vendor and other receivables	18,605	18,564
	127,735	112,314
Less: Allowance for uncollectible accounts	(2,556)	(5,980)
Accounts receivable, net	$ 125,179	$ 106,334

3. Property and Equipment

The composition of property and equipment as of December 31, 1999 and 1998 is as follows (in thousands):

	1999	1998
Office furniture and equipment	$ 10,379	$ 9,519
Computer software	9,599	6,300
Leasehold improvements	4,797	4,578
	24,775	20,397
Less accumulated depreciation and amortization	(12,148)	(9,016)
Property and equipment, net	$ 12,627	$ 11,381

Depreciation and amortization expense on property and equipment was $3,470, $3,323 and $3,202 in 1999, 1998 and 1997, respectively.

4. Notes Payable to Banks

On May 2, 1996, the Company executed a three-year credit facility with a bank (the "Principal Lender") for $40.0 million and a one-year credit facility with the other lenders for an additional $55.0 million (collectively, the "Credit Facility"). Additionally, on June 27, 1996, the Company executed a separate $10.0 million facility with the Principal Lender for inventory financing of vendor products (the "Wholesale Financing Facility").

On July 28, 1997, the Company and its banks executed the Second Amended and Restated Business Credit and Security Agreement (the "Credit Agreement") to modify some of the terms and conditions, as well as the amounts available under the Credit Facility and the Wholesale Financing Facility. These modifications included the revision of the Credit Facility's term to one year with a one year automatic renewal.

On, March 31, 1999, the Second Amended and Restated Business Credit Agreement of July 28, 1997 was amended to make the Tangible Net Worth requirement for the Company an amount no less than $40 million at all times beginning the calendar quarter ending March 31, 1999 and each calendar quarter thereafter. All other material terms of the Credit Agreement remained the same.

On, November 24, 1999, the Company and its banks executed separate amendments, effective December 1, 1999, for the continuation of the Credit Agreement through November 30, 2000 with an automatic one year renewal, and adjusting, among other things, the seasonality of the amount available under the Credit Facility. The limit of the Credit Facility is $50 million during the period July 1 through January 31. During the period February 1 through April 30, the total amount available under the Credit Facility is limited to $30 million. During the period May 1 though June 30, the total amount available under the Credit Facility is $20 million. In addition, the interest rate under the Credit Facility is a rate of the London Interbank Offered Rate (LIBOR) plus 1.75%. The Wholesale Financing Facility was also amended effective December 1, 1999 to $50.0 million throughout the fiscal year.

As of December 31, 1999, 1998, and 1997, respectively, the Company's interest rate on the Credit Facility was 8.24%, 7.83% and 8.89%, respectively. Amounts due to the Lenders as of December 31, 1999 are classified as current liabilities and the available portion of the Credit Facility at December 31, 1999 was approximately $14.7 million down from $24.4 million at December 31, 1998.

Borrowing is limited to 85% of eligible accounts receivable. The Credit Facility is secured by substantially all of the operating assets of the Company. Current obligations are first funded and then all cash receipts are automatically applied to reduce outstanding borrowings. The Credit Facility also contains certain covenants that include restrictions on the payment of dividends and the repurchase of the Company's Common Stock, as well as provisions specifying compliance with certain quarterly and annual financial statistical ratios. At December 31, 1999, the Company was in compliance with all financial covenants set forth in the credit facility.

The following information pertains to the notes payable for the years ended December 31, 1999, 1998 and 1997 (dollars in thousands):

	1999	1998	1997
Weighted average interest rate	7.5%	8.2%	8.0%
Weighted average borrowings	$ 4,100	$ 12,500	$ 18,600

5. Income Taxes

The components of the provision (benefit) for income taxes for the years ended December 31, 1999, 1998 and 1997 are as follows (in thousands):

	1999	1998	1997
Current taxes :			
Federal	$ 370	$ 1,443	$ (2,191)
State	70	297	(275)
	440	1,740	(2,466)
Deferred taxes:			
Federal	(397)	(1,443)	2,191
State	(43)	(297)	275
	(440)	(1,740)	2,466
Income tax provision	$ -	$ -	$ -

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities and the amounts used for income tax purposes. In 1999 and 1998, the Company determined that $5.0 million and $4.9 million, respectively, of net deferred tax assets were not recoverable. Accordingly, valuation allowances were recorded against the applicable net deferred tax assets.

Significant components of the Company's deferred taxes as of December 31, 1999 and 1998 were as follows (in thousands):

	December 31,	
	1999	1998
Deferred tax assets:		
Accounts receivable and inventory allowances	$ 1,436	$ 2,393
Intangible assets	1,819	1,777
Accrued warranty and other contract costs	3,272	1,720
Bid and proposal costs	332	332
Vacation accrual	280	231
Deferred compensation	9	47
Rent abatement	84	65
Other reserves	356	315
Total deferred tax assets	7,588	6,880
Deferred tax liabilities:		
Depreciation	118	215
Web site development costs	245	-
Total deferred tax liabilities	363	215
Net deferred tax assets	7,225	6,665
Valuation allowance	(5,045)	(4,925)
Net deferred tax assets reported	$ 2,180	$ 1,740

The Company's effective tax rate for the years ended December 31, 1999 and 1998 differs from the statutory rate for Federal income taxes as a result of the following factors:

	1999	1998
Statutory rate	34.0%	34.0%
State income taxes, net of Federal tax benefit	4.0	4.2
Valuation allowance	(39.8)	(36.4)
Other	1.8	(1.8)
	-	-

6. Stockholders' Equity

Stock Options and Warrants. The Company has two combination incentive and non-statutory stock option plans, the "1996 Plan" and the "1994 Plan," that provide for the granting of options to employees (both plans) and non-employee directors (only under the 1996 Plan) to purchase up to 1,600,000 and 300,000 shares, respectively, of the Company's common stock. In addition, in May 1997 the Company's Board of Directors adopted the 1997 Non-Officer Stock Option Plan (the "1997 Plan") under Section (i)(1)(A) of The Nasdaq Stock Market's National Market Rules. The 1997 Plan provides for the granting of non-statutory stock options only to employees other than officers and directors to purchase up to 300,000 shares of the Company's common stock. Until its expiration on March 15, 1996, the Company had another combination incentive and non-statutory stock option plan, the "1986 Plan," that provided for the granting of options to employees to purchase up to 1,100,000 shares of the Company's common stock. Under the 1997, 1996, 1994 and 1986 Plans, options have a term of up to ten years, generally vest over four years and option prices are required to be at not less than 100% of the fair market value of the Company's common stock at the date of grant and, except in the case of non-employee directors, must be approved by the Board of Directors or its Compensation Committee. Options under the 1997, 1996, 1994 and 1986 plans were as follows:

	Number of Option Shares	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Weighted Average Remaining Life
1997 Plan:				
Outstanding at December 31, 1996	-	-	-	
Granted	131,675	$ 4.88-5.50	$ 4.98	
Forfeited or canceled	(12,333)	4.88	4.88	
Exercised	-	-	-	
Outstanding at December 31, 1997	119,342	4.88-5.50	5.00	
Granted	239,000	3.63-5.38	4.90	
Forfeited or canceled	(62,167)	4.88-5.50	5.07	
Exercised	-	-	-	
Outstanding at December 31, 1998	296,175	3.63-5.38	4.90	
Granted	74,000	2.88-3.75	3.48	
Forfeited or canceled	(94,250)	3.75-5.31	4.90	
Exercised	-	-	-	
Outstanding at December 31, 1999	275,925	$ 2.88-5.38	$ 4.52	5.0
1996 Plan:				
Outstanding at December 31, 1996	237,000	$ 5.13-7.31	$ 5.34	
Granted	358,000	4.88-5.44	5.13	
Forfeited or canceled	(195,500)	4.88-6.13	5.21	
Exercised	-	-	-	
Outstanding at December 31, 1997	399,500	4.88-7.31	5.21	
Granted	223,750	4.50-5.25	4.88	
Forfeited or canceled	(50,500)	5.00-7.31	5.58	
Exercised	-	-	-	
Outstanding at December 31, 1998	572,750	4.50-5.44	5.05	
Granted	826,000	2.88-4.94	3.72	
Forfeited or canceled	(144,750)	3.75-5.25	4.63	
Exercised	-	-	-	
Outstanding at December 31, 1999	1,254,000	$ 2.88-5.44	$ 4.22	6.7

	Number of Option Shares	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Weighted Average Remaining Life
1994 Plan:				
Outstanding at December 31, 1996	291,500	$ 3.25-13.44	$ 6.68	
Granted	116,000	5.19-5.31	5.23	
Forfeited or canceled	(172,300)	3.50-6.13	5.30	
Exercised	(2,700)	3.50	3.50	
Outstanding at December 31, 1997	232,500	3.25-13.44	7.02	
Granted	80,000	4.53-5.00	4.81	
Forfeited or canceled	(26,000)	3.50-5.19	4.21	
Exercised	(15,000)	3.50	3.50	
Outstanding at December 31, 1998	271,500	3.25-13.44	6.83	
Granted	84,000	2.88-3.75	3.03	
Forfeited or canceled	(74,000)	5.00-5.25	5.14	
Exercised	-	-	-	
Outstanding at December 31, 1999	281,500	$ 2.88-13.44	$ 6.13	5.1
1986 Plan:				
Outstanding at December 31, 1996	112,300	$ 3.50-14.25	$ 6.12	
Granted	-	-	-	
Forfeited or canceled	(27,800)	6.50-10.25	9.65	
Exercised	-	-	-	
Outstanding at December 31, 1997	84,500	3.50-14.25	4.95	
Granted	-	-	-	
Forfeited or canceled	(13,000)	3.25	3.25	
Exercised	(7,000)	3.25	3.25	
Outstanding at December 31, 1998	64,500	3.50-14.25	5.48	
Granted	-	-	-	
Forfeited or canceled	(7,500)	14.25	14.25	
Exercised	-	-	-	
Outstanding at December 31, 1999	57,000	$ 3.5-10.25	$ 4.33	5.4
Nonstatutory Stock Options:				
Outstanding at December 31, 1996	1,105,000	$ 3.75-10.50	4.35	
Granted	150,000	5.13-5.25	5.17	
Forfeited or canceled	-	-	-	
Exercised	-	-	-	
Outstanding at December 31, 1997	1,255,000	3.75-10.50	4.67	
Granted	81,000	4.88	4.88	
Forfeited or canceled	(20,000)	6.13	6.13	
Exercised	-	-	-	
Outstanding at December 31, 1998	1,316,000	3.75-10.50	4.61	
Granted	150,000	3.13-4.63	4.13	
Forfeited or canceled	(321,000)	4.63-5.38	5.05	
Exercised	-	-	-	
Outstanding at December 31, 1999	1,145,000	$ 3.13-10.50	$ 4.42	5.5
FOR ALL PLANS:				
Outstanding at December 31, 1999	3,013,425	$ 2.88-13.44	$ 4.51	6.0

Outstanding and Exercisable by Price Range as of December 31, 1999

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted Average Remaining Contractual Life-Years	Weighted Average Exercise Price	Number Exercisable at 12/31/99	Weighted Average Exercise Price
2.85 - 4.28	1,948,000	6.4	$ 3.67	1,219,900	$ 3.74
4.28-5.70	864,925	5.5	4.98	732,007	5.00
5.7-7.13	21,500	4.3	6.54	18,500	6.61
7.13-8.55	9,000	4.0	7.31	5,400	7.31
9.98-11.40	107,000	4.4	10.48	107,000	10.48
11.4-12.83	48,000	2.0	12.50	48,000	12.50
12.83-13.44	15,000	4.5	13.10	15,000	13.10
3.25- 13.44	3,013,425	6.0	$ 4.51	2,145,807	$ 4.80

The Company adopted the disclosure requirements of SFAS 123, "Accounting for Stock-Based Compensation," effective for the Company's December 31, 1996 financial statements. The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans, as allowed under SFAS 123. Accordingly, no compensation cost has been recognized for stock option and stock purchase plans. If compensation cost for the Company's stock-based compensation plans had been determined on the fair value at the grant dates for awards under those plans consistent with the method in SFAS 123, the Company's net income (loss) and net income (loss) per share would have increased to the pro forma amounts (in thousands, except net income (loss) per share amounts) indicated below.

	1999	1998	1997
Net income (loss) - pro forma	$ 1,340	$ 1,504	$ (5,411)
Net income (loss) per share - pro forma (basic)	0.14	0.17	(0.80)
Net income (loss) per share - pro forma (diluted)	0.14	0.17	(0.80)

The fair value of each option is estimated on the date of grant using the Black–Scholes option-pricing model with the following assumptions used for grants in 1999: no dividend yield, 68% volatility, a risk-free interest rate of 6%, and an average expected life of seven years; and the following assumptions were used for grants in 1998 and 1997; no dividend yield, 70% volatility, risk-free interest rates ranging from 3.79% to 6.90%, and expected lives from three to eight years.

At December 31, 1999, in the 1997 Plan options for 164,925 shares were exercisable and 24,075 options were available for grant; in the 1996 Plan options for 674,416 shares were exercisable and 346,000 options were available for grant; in the 1994 Plan options for 167,716 shares were exercisable and 800 options were available for grant; and in the 1986 Plan options for 57,000 shares were exercisable.

Stock Purchase Plan. The Company has established an Employee Stock Purchase Plan ("ESPP"). Eligible employees may elect to set aside, through payroll deduction, up to 15% of their compensation to purchase common stock of the Company. The maximum number of shares that an eligible employee may purchase during any offering period is equal to 5% of such employee's compensation for the 12 calendar-month period prior to the commencement of an offering period divided by 85% of the fair market value of a share of common stock on the first day of the offering period. The ESPP is implemented through one offering during each six-month period beginning January 1 and July 1. The ESPP purchase price is 85% of the lower of the fair market value of a share of common stock on the first day or the last day of the offering period. In the offering periods ended June 30, 1999 and December 31, 1999, employees purchased 11,912 and 23,641 shares, respectively, at prices of $4.04 and $3.85, respectively. In the offering periods ended June 30, 1998 and December 31, 1998, employees purchased 9,367 and 11,943 shares, respectively, at prices of $4.04 and $3.85, respectively. In the offering periods ended June 30, 1997 and December 31, 1997, employees purchased 13,126 and 15,435 shares, respectively, at prices of $4.25 and $4.20, respectively. The weighted average fair market value of shares under the ESPP was $2.73, $3.93 and $4.22 in 1999, 1998 and 1997, respectively. The Company has reserved 250,000 shares of common stock for the ESPP, of which 36,998 were available for future issuance as of December 31, 1999.

7. Commitments and Contingencies

During the fourth quarter of 1997, the Company recorded an additional accrual of $1.1 million to account for estimated obligations associated with state sales tax activity occurring during the years 1992 though 1995. All outstanding obligations at December 31, 1997 were settled in 1998. State sales tax laws generally require collection from customers of sales tax unless such customers provide valid sales tax exemption certificates. Sales tax exemption certificates are customarily issued to those companies that resell products to the Federal Government.

The Company is occasionally a defendant in litigation incidental to its business. The Company believes that none of such litigation currently pending against it, individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

The Company leases office and warehouse space and various equipment under non-cancelable operating leases.

In November 1988, the Company executed a ten-year lease for its corporate headquarters that comprises approximately 120,000 square feet of office space and 14,000 square feet of warehouse space. The Company also entered into a nine-year lease for 55,170 square feet of office space in two buildings beginning December 1, 1989. The lease for the entire facility expired on November 30, 1998. In October 1997, the Company executed a ten-year lease for a new administrative facility consisting of approximately 100,500 square feet of new office space in Chantilly, Virginia. The agreement has one five-year option period and commenced on December 1, 1998. The Company is obligated under the lease agreement to provide to the Landlord a Letter of Credit ("LOC") in the amount of $2.0 million as a security deposit for all tenant requested improvements associated with the lease. This deposit will be reduced by 10%, per year, over the life of the lease. The Company has recorded leasehold improvements in the amount of $2.0 million, as well as a liability for deferred rent of $2.0 million in conjunction with the build-out improvements. The asset and liability are being amortized over the life of the lease. The Company also entered into a lease agreement on April 1, 1999 for a 20,000 square foot distribution center in Chattanooga, Tennessee. Rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately $2.1 million, $2.8 million and $2.7 million, respectively. The Company also maintains a sales office in Germany and has entered into a lease agreement as of January 1, 1999 for term of two-years ending on December 31, 2000.

Collective future minimum lease payments as of December 31, 1999 are as follows (in thousands):

Year ending December 31,	Operating Leases
2000	$ 1,940
2001	1,913
2002	1,936
2003	1,985
2004	2,035
Thereafter	6,692
Total minimum lease payments	$ 16,501

8. 401(k) Plan

Effective April 1991, the Company adopted the Employees' 401(k) Investment Plan (the "Plan"), a savings and investment plan intended to be qualified under Section 401 of the Internal Revenue Code (the "Code"). All employees of the Company who are at least 21 years of age and have completed at least six months of employment with the Company are eligible to participate. The Plan is voluntary and allows participating employees to make pretax contributions, subject to limitations under the Code, of a percentage (not to exceed 15%) of their total compensation. Employee contributions are fully vested at all times. The Company, in its sole discretion, may make contributions in amounts, if any, as may be determined by the Board of Directors for the benefit of all participants. In 1999 and 1998, the Company contributed a total of $ 242,917 and $101,034 to the plan, respectively. No contributions were made in 1997.

9. Segment Reporting

In June 1997, the Financial Accounting Standards Board issued SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," which requires certain information about operating segments in the financial statements and in condensed financial statements of interim periods. The Company has determined that through December 31, 1999, it operated as one business segment as defined by SFAS 131. In addition, the Company aggregates and reports revenues from products which have similar economic characteristics in their nature, production, and distribution process. The primary customer of the Company is the Federal Government, which under SFAS 131 is considered a single customer.

10. Quarterly Financial Data (unaudited)

The following tables set forth selected unaudited quarterly financial data and the percentages such items represent of sales. The quarterly financial data reflect, in the opinion of the Company, all normal and recurring adjustments necessary to present fairly the results of operations for such periods. Results of any one or more quarters are not necessarily indicative of annual results or continuing trends.

	1999 Quarters Ended							
	March 31,		June 30,		September 30,		December 31,	
(In thousands except per share data)								
Sales	$ 125,549	100.0%	$ 148,760	100.0%	$ 194,494	100.0%	$ 199,685	100.0%
Cost of sales	115,477	92.0%	136,514	91.8%	181,002	93.1%	185,388	92.8%
Gross margin	10,072	8.0%	12,246	8.2%	13,492	6.9%	14,297	7.2%
Operating expenses	12,530	10.0%	12,345	8.3%	11,102	5.7%	12,538	6.3%
(Loss) income from operations	(2,458)	(2.0)%	(99)	(0.1)%	2,390	1.2%	1,759	0.9%
Interest (income) expense, net	(565)	(0.5)%	(168)	(0.1)%	(358)	(0.2)%	1	0.0%
(Loss) income before income taxes	(1,893)	(1.5)%	69	0.0%	2,748	1.4%	1,758	0.9%
Net (loss) income	(1,893)	(1.5)%	69	0.0%	2,748	1.4%	1,758	0.9%
Basic net (loss) income per share	($0.20)		$0.01		$0.30		$0.19	
Diluted net (loss) income per share	($0.20)		$0.01		$0.30		$0.19	
Basic weighted average shares								
Outstanding	9,466		9,200		9,211		9,212	
Fully diluted shares								
Outstanding	9,466		9,859		9,308		9,215	

	1998 Quarters Ended							
	March 31,		June 30,		September 30,		December 31,	
(In thousands except per share data)								
Sales	$ 99,094	100.0%	$ 136,901	100.0%	$ 196,029	100.0%	$ 173,860	100.0%
Cost of sales	90,562	91.4%	124,560	91.0%	178,182	90.9%	160,943	92.6%
Gross margin	8,532	8.6%	12,341	9.0%	17,847	9.1%	12,917	7.4%
Operating expenses	11,602	11.7%	11,789	8.6%	13,535	6.9%	11,395	6.6%
(Loss) income from operations	(3,070)	(3.1)%	552	0.4%	4,312	2.2%	1,522	0.9%
Interest expense (income), net	439	0.4%	384	0.3%	352	0.2%	(198)	(0.1)%
(Loss) income before income taxes	(3,509)	(3.5)%	168	0.1%	3,960	2.0%	1,720	1.0%
Net (loss) income	(3,509)	(3.5)%	168	0.1%	3,960	2.0%	1,720	1.0%
Basic net (loss) income per share	($0.52)		($0.02)		$0.40		($0.18)	
Diluted net (loss) income per share	($0.52)		($0.02)		$0.40		($0.17)	
Basic weighted average shares								
Outstanding	6,756		8,422		9,788		9,788	
Fully diluted shares								
Outstanding	6,756		8,631		9,849		9,845	

GOVERNMENT TECHNOLOGY SERVICES, INC. AND SUBSIDIARY

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

(In thousands) Description	Balance at Beginning Of Period	Charged to Costs and Expenses	Deductions (1)	Balance at end of Period
Year ended December 31, 1999:				
Allowance for bad debts	$ 5,980	$ (902)	$ (2,522)	$ 2,556
Year ended December 31, 1998:				
Allowance for bad debts	$ 4,093	$ 2,097	$ (210)	$ 5,980
Year ended December 31, 1997:				
Allowance for bad debts	$ 4,535	$ 2,800	$ (3,242)	$ 4,093

(1) Adjustments and amounts written off during the period.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Incorporated by reference to the Registrant's Form 8-K filed with the Commission on June 17, 1996.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this Item is incorporated by reference to the sections of the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 16, 2000, entitled "Election of Directors – Nominees," "Executive Officers" and "Common Stock Ownership of Principal Stockholders and Management – Compliance with Section 16(a) Beneficial Ownership Reporting Compliance," to be filed with the Commission.

Item 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference to the sections of the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 16, 2000, entitled "Election of Directors – Compensation of Directors" and "Executive Compensation and Other Information," to be filed with the Commission.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item is incorporated by reference to the section of the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 16, 2000, entitled "Common Stock Ownership of Principal Stockholders and Management," to be filed with the Commission.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item is incorporated by reference to the sections of the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 16, 2000, entitled "Election of Directors – Nominees" and "Executive Compensation and Other Information– Compensation Committee Interlocks and Insider Participation," to be filed with the Commission.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8–K.

(a) (1) Financial Statements

See the Index included in Item 8 on Page 23 of this Form 10–K.

(2) Financial Statement Schedules

See the Index included in Item 8 on Page 23 of this Form 10–K.

(3) Exhibits

2.1 Stock Purchase Agreement by and among the Registrant, Falcon Microsystems, Inc. and M. Dendy Young dated August 16, 1994

3.1 Certificate of Incorporation, as amended

3.2 Bylaws, as amended

4.1 Rights Agreement dated as of January 3, 1995 by and between the Registrant and First Union National Bank of North Carolina, as Rights Agent, which includes as Exhibit B thereto the form of Rights Certificate

10.1 Amended and Restated 1986 Stock Option Plan, including forms of Stock Option Agreements and Stock Purchase Agreement

10.2 Employee Stock Purchase Plan, as amended to date

10.3 GSA Schedule B/C Award/Contract No. GS00K95AGS6407 dated April 1, 1996, issued by the General Services Administration to the Registrant for the three-year period ending March 31, 1999, and amendment thereto dated November 26, 1997

10.4 GSA Schedule A Award/Contract No. GS00K94AGS5681 dated October 1, 1993, issued by the General Services Administration to the Registrant, and Modifications during 1993; and Modifications during the quarter ended December 31, 1994

10.5 Deed of Lease Agreement I dated as of November 17, 1987 between the Registrant and Enterprise Center Limited Partnership Number Two covering part of the Registrant's facilities in Chantilly, Virginia, as amended by Amendment No. One dated December 14, 1988

10.6 Deed of Lease Agreement II dated as of November 17, 1987 between the Registrant and Enterprise Center Limited Partnership Number Two covering part of the Registrant's facilities in Chantilly, Virginia, as amended by Amendment No. One dated December 14, 1988

10.7 Lease dated March 31, 1993 between the Registrant and West 50 Associates covering office and warehouse facilities; and Amendment thereto dated September 21, 1995

10.8 Letter Agreement dated September 17, 1990, as amended, between the Registrant and R. M. Rickenbach

10.9 Warrant of the Registrant dated December 6, 1990 issued to Lawrence J. Schoenberg

10.10 Nonstatutory Stock Option Agreement dated October 9, 1992 between the Registrant and Frank H. Slovenec

10.11 Officer Severance Plan, as amended to date

10.12 GTSI Employees' 401(k) Investment Plan; and Amendment No. 1; Amendment No. 2 and Amendment No. 3 thereto

10.13 IBM Business Partner Agreement (Dealer Profile, Dealer Exhibit, Dealer/Retailer Attachment and Remarketer General Terms) between IBM and the Registrant, effective January 1994

10.14 U.S. Navy Standard Desktop Computer Companion Contract No. N66032–91–D–0002 dated February 8, 1991; Modification thereof dated June 28, 1991; Modifications during 1992; and Modifications during 1993

10.15 Credit Agreement, dated as of November 17, 1994, by and among the Registrant and Falcon Microsystems, Inc., as Borrowers; The Lenders Parties Thereto From Time To Time; and Mellon Bank, N.A., as Agent; and Amendment thereto dated December 29, 1995 (see also Exhibit 10.)

10.16 Stock Bonus Agreement dated August 25, 1993 between the Registrant and R. M. Rickenbach

10.17 Stock Bonus Agreement dated August 25, 1993 between the Registrant and Frank H. Slovenec

10.18 Authorized Apple Dealer Sales Agreement between Apple Computer, Inc. and the Registrant, effective April 1993

10.19 U.S. Air Force Desktop IV Microsystems Contract No. F01620–93–D–0001 dated February 2, 1993; Modifications during 1993; and Modifications during the quarter ended March 31, 1994; and Modifications during the quarter ended June 30, 1995

10.20 National Aeronautics and Space Administration Scientific & Engineering Workstation Procurement Contract No. NAS5–37008 dated February 19, 1993; Modifications during 1993; and Modifications during the quarter ended March 31, 1994

10.21 Stock Bonus Agreement dated November 16, 1994 between the Registrant and R. M. Rickenbach

10.22 Stock Bonus Agreement dated November 16, 1994 between the Registrant and Frank H. Slovenec

10.23 Stock Bonus Agreement dated November 16, 1994 between the Registrant and Thomas L. Smudz

10.24 Business Credit and Security Agreement dated as of December 29, 1995 among the Registrant, certain Lenders named therein, and Deutsche Financial Services Corporation, as a Lender and as Agent; and Amendment thereto dated March 29, 1996

10.25 Lease dated August 11, 1995 between the Registrant and Security Capital Industrial Trust covering new distribution center facility

10.26 Letter agreement dated January 16, 1996 between the Registrant and Microsoft Corporation

10.27 Employment Agreement dated December 18, 1995 between the Registrant and M. Dendy Young

10.28 Employment Agreement dated December 18, 1995 between the Registrant and Peter E. Janke

10.29 Settlement Agreement between the Registrant and the U.S. Air Force with respect to the Desktop IV Microsystems Contract No. F01620–93–D–0001

10.30 Asset Purchase Agreement dated as of February 12, 1998 among the Registrant, BTG, Inc., BTG Technology Systems, Inc. and Concept Automation, Inc. of America (excluding attachments and exhibits)

10.31 Standstill Agreement between the Registrant and BTG, Inc. dated as of February 12, 1998

10.32 Certificate of Designations, Preferences and Rights of Series C 8% Cumulative Redeemable Convertible Preferred Stock of the Registrant filed February 12, 1998 with the Secretary of State of Delaware

10.33 1994 Stock Option Plan, as amended to date

10.34 1996 Stock Option Plan

10.35 Employment Agreement dated January 1, 1998 between the Registrant and M. Dendy Young

10.36 Lease dated December 10, 1997 between the Registrant and Petula Associates, Ltd. covering new headquarters facility (excluding attachments and exhibits)

10.37 Second Amended and Restated Business Credit and Security Agreement, dated as of July 28, 1997, among the Registrant, Certain Lenders Named [in such agreement], and Deutsche Financial Services Corporation, as a Lender and as Agent (excluding attachments and exhibits)

10.38 Amendment of Certificate of Incorporation filed May 12, 1998 with the Secretary of State of Delaware

10.39 Letter Agreement between the Registrant and BTG, Inc. executed on May 18, 1998

10.40 Standstill Agreement between the Registrant and Linwood A. ("Chip") Lacy, Jr. dated July 29, 1998

10.41 Amendment, dated as of July 2, 1998, to Second Amended and Restated Business Credit and Security Agreement, dated as of July 28, 1997, among the Registrant, Certain Lenders Named [in such agreement], and Deutsche Financial Services Corporation, as a Lender and as Agent

10.42 Amendment, dated as of July 2, 1998, to Agreement for Wholesale Financing dated as of June 27, 1996, among the Registrant and Deutsche Financial Services Corporation

10.43 Agreement among the Registrant, BTG, Inc., BTG Technology Systems, Inc. and Concept Automation, Inc. of America dated February 10, 1999

10.44 Stock Transfer Agreement between the Registrant and BTG, Inc. dated February 10, 1999

10.45 Amendment, dated as of November 24, 1999 to Second Amended and Restated Business Credit and Security Agreement, dated July 28, 1997, among the Registrant, certain lenders named [in such agreement] and Deutsche Financial Services Corp., as a Lender and Agent

10.46 Addendum, dated as of November 23, 1999 to Agreement for Wholesale Financing dated June 27, 1996, among the Registrant and Deutsche Financial Services Corp.

11.1 Computation of Earnings Per Share

23.1 Consent of Arthur Andersen LLP

27.1 Financial Data Schedule

(1) Constitutes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10–K.

(2) Confidential treatment has been granted for portions of this exhibit, and such confidential portions have been removed from this exhibit pursuant to Rule 24b–2 of the Securities Exchange Act of 1934, as amended.

(3) Incorporated by reference to the Registrant's Registration Statement on Form S–1 (Registration No. 33–41351) filed with the Commission on June 21, 1991.

(4) Incorporated by reference to Pre–effective Amendment No. 3 to the Registrant's Registration Statement on Form S–1 (Registration No. 33–41351) filed with the Commission on September 20, 1991.

(5) Incorporated by reference to the Registrant's Registration Statement on Form S–8 (Registration No. 33–55090) filed with the Commission on November 25, 1992.

(6) Incorporated by reference to the Registrant's Annual Report on Form 10–K (File No. 0–19394) for the year ended December 31, 1992.

(7) Incorporated by reference to the Registrant's Quarterly Report on Form 10–Q (File No. 0–19394) for the quarter ended March 31, 1993.

(8) Incorporated by reference to the Registrant's Quarterly Report on Form 10–Q (File No. 0–19394) for the quarter ended September 30, 1993.

(9) Incorporated by reference to the Registrant's Annual Report on Form 10–K (File No. 0–19394) for the year ended December 31, 1993.

(10) Incorporated by reference to the Registrant's Quarterly Report on Form 10–Q (File No. 0–19394) for the quarter ended March 31, 1994.

(11) Incorporated by reference to the Registrant's Current Report on Form 8–K filed with the Commission on August 31, 1994, as amended by Form 8–K/A No. 1 filed with the Commission on October 31, 1994.

(12) Incorporated by reference to the Registrant's Annual Report on Form 10–Q (File No. 0–19394) for the year ended December 31, 1994.

(13) Incorporated by reference to the Registrant's Current Report on Form 10–K (File No. 0–19394) for the year ended December 31, 1996.

(14) Incorporated by reference to the Registrant's Current Report on Form 8–K filed with the Commission on February 12, 1998.

(15) Incorporated by reference to the Registrant's Annual Report on Form 10–K (File No. 0–19394) for the year ended December 31, 1997.

(16) Incorporated by reference to the Registrant's Current Report on Form 8–K filed with the Commission on May 18, 1998.

(17) Incorporated by reference to the Registrant's Current Report on Form 8–K filed with the Commission on May 21, 1998.

(18) Incorporated by reference to the Registrant's Current Report on Form 8–K filed with the Commission on August 5, 1998.

(19) Incorporated by reference to the Registrant's Quarterly Report on Form 10–Q (File No. 0–19394) for the quarter ended June 30, 1998.

(b) Reports on Form 8–K

None.

(c) Exhibits

See the list of Exhibits in Item 14(a)(3) beginning on Pages 43-47 of this Form 10–K.

(d) Financial Statement Schedules

See the Index included in Item 8 on Page 23 of this Form 10–K.

SIGNATURES

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

GOVERNMENT TECHNOLOGY SERVICES, INC.

Dated: March 30, 2000

By: /S/ M. DENDY YOUNG
M. Dendy Young,
Chairman and Chief Executive Officer

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

Signature	Title	Date
/S/ M. DENDY YOUNG M. Dendy Young	Chairman and Chief Executive Officer (Principal Executive Officer) and a Director	March 30, 2000
/S/ ROBERT D. RUSSELL Robert D. Russell	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2000
/S/ TANIA AMOCHAEV Tania Amochaev	Director	March 30, 2000
/S/ GERALD W. EBKER Gerald W. Ebker	Director	March 30, 2000
/S/ LEE JOHNSON Lee Johnson	Director	March 30, 2000
/S/ STEVEN KELMAN Steven Kelman, Ph.D.	Director	March 30, 2000

Signature	Title	Date
/S/ JAMES J. LETO James J. Leto	Director	March 30, 2000
/S/ LAWRENCE J. SCHOENBERG Lawrence J. Schoenberg	Chairman Emeritus	March 30, 2000
/S/ JOHN M. TOUPS John M. Toups	Director	March 30, 2000

EXHIBIT 10.45

THIRD AMENDMENT

THIS THIRD AMENDMENT ("Amendment") is entered into as of the 24th day of November, 1999 by and among Deutsche Financial Services Corporation, as Agent and a Lender ("Agent") the other Lenders signatories hereto ("Lenders") and Government Technology Services, Inc. ("Borrower").

RECITALS

Agent, Lenders (and/or their successors by assignment, as applicable) and Borrower are parties to that certain Second Amended and Restated Business Credit and Security Agreement dated as of July 28, 1997 (as amended from time to time, the "Credit Agreement"). Lenders and Agent now desire to amend certain provisions of the Credit Agreement subject to the terms hereof In connection with: (i) the purchase by Crestar Bank ("Crestar") of an additional Commitment in the Total Credit, which shall result in the reduction of Agent's Commitment in the Total Credit, and (ii) certain other amendments to the Credit Agreement, as described more fully herein.

NOW, THEREFORE, in consideration of the forgoing premises and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Amendment Effective Date; Settlement. Notwithstanding anything herein to the contrary, this Amendment shall only become effective (the "Amendment Effective Date") when (a) the Borrower, the Agent, and each Lender shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmissions) the same to Agent at its address indicated in the Credit Agreement; and (b) Crestar shall have delivered to the Agent for the account of the Lenders, an amount equal to the increase in Crestar's relevant Pro Rata Share of the principal amount of the outstanding Loans and any accrued and unpaid interest under the Credit Agreement.

2. Commitments; Pro Rata Shares. Upon the Amendment Effective Date, each Lender agrees and confirms that its Commitment under the Credit Agreement shall be as set forth on Exhibit A, attached hereto and incorporated herein, which Exhibit A shall also amend the Credit Agreement regarding the subject matter thereof. Each Lender hereby agrees that upon the Amendment Effective Date, its Commitment and corresponding Pro Rata Share shall be determined in accordance with Exhibit A hereto.

3. Amendments to Credit Agreement. Upon the Amendment Effective Date, the Credit Agreement shall be amended as follows:

(i) Credit Facility. The introductory paragraph to Section 3 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

> "3. Credit Facility. In consideration of Borrower's payment and performance of its Obligations and subject to the terms and conditions contained in this Agreement, each Lender agrees, severally but not jointly, to make Loans to the Borrower from time to time in accordance with the terms of this Agreement, and Borrower agrees to accept, an aggregate credit facility of up to:
>
> (i) Thirty Million Dollars ($30,000,000) during the First Seasonal Period;
>
> (ii) Twenty Million Dollars ($20,000,000) during the Second Seasonal Period;

(iii) Fifty Million Dollars ($50,000,000) during the Third Seasonal Period; and

(iv) Fifty Million Dollars ($50,000,000) during the Fourth Seasonal Period;

(individually, the 'Total Credit'), on and subject to the terms hereof (the 'Credit Facility')."

(ii) Borrowing Base. Section 3.2 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"3.2 Borrowing Base. On receipt of each Borrowing Base Certificate in form and substance acceptable to Agent, which shall be delivered with each Notice of Borrowing and at least weekly (the 'Borrowing Base Certificate'), Agent will credit Borrower with eighty-five percent (85%) of the net amount of the Eligible Accounts which are, absent error or other discrepancy, listed in such Borrowing Base Certificate minus the face amount of all letters of credit issued or guaranteed by an LC Guarantying Lender, minus any reserves established pursuant to Section 3.12 hereof (the 'Borrowing Base'). For purposes hereof, the net amount of Eligible Accounts at any time shall be the face amount of such Eligible Accounts less any and all returns, discounts (which may, at Agent's option, be calculated on shortest terms), credits, rebates, allowances, or excise taxes of any nature at any time issued, owing claimed by Account Debtors, granted, outstanding, or payable in connection with such Accounts at such time."

(iii) Interest; Calculation. Section 3.3(a) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"(a) Interest Calculation. Borrower will pay interest on the Daily Contract Balance (as defined below) at a rate equal to the LIBOR Rate (Reserve Adjusted) plus one and seventy-five one-hundredths percent (1.75%) per annum. Commencing with the fiscal quarter of Borrower ending September 30, 1999 and each quarter thereafter, if Borrower's financial statements delivered to Agent pursuant to Section 3.11(e)(i) hereof or Borrower's 10Q Reports in the form delivered to the Securities Exchange Commission, as applicable, for such quarter indicate that Borrower has breached all of its financial covenants as set forth in Section 9.3 hereof, then from and after delivery of such financial statements showing a breach of all of such financial covenants, and provided Borrower is not in Default hereunder, the rate of interest described above will be increased to the LIBOR Rate (Reserve Adjusted) plus two and forty-five one-hundredths percent (2.45%) per annum. Such interest will: (i) be computed based on a 360 day year; (ii) be calculated with respect to each day by multiplying the Daily Rate (as defined below) by the Daily Contract Balance; and (iii) accrue from the date Agent authorizes any Electronic Transfer (as defined in Section 3.3(b) below) or otherwise advances a Loan to or for the benefit of Borrower, until Agent receives full payment of the Obligations Borrower owes the Lenders in good funds and Agent applies such payment to Borrower's principal debt in accordance with the terms of this Agreement. The 'Daily Rate' is the quotient of the applicable annual rate provided herein divided by 360. The 'Daily Contract Balance' is the amount of outstanding principal debt which Borrower owes Lenders on the Loans at the end of each day (including the amount of all Electronic Transfers authorized) after Agent has credited payments which it has received on the Loans."

(iv) Administration Fee. Section 3.4(b) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"(b) Administration Fee. Borrower agrees to pay DFS, for DFS' own account, for its services in acting as Agent hereunder, an annual administration fee (the 'Administration Fee') in an amount equal to Twenty-Four Thousand Dollars ($24,000). The Administration Fee shall be payable monthly, in arrears, in equal installments of $2000, and due pursuant to the applicable billing statement. Absent manifest error, once received by DFS, no Administration Fee shall be refundable by DFS for any reason, including early termination of this Agreement."

(v) Credit Facility Fee. Section 3.4(d) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"(d) Credit Facility Fee. Borrower agrees to pay Agent for the account of all Lenders an annual credit facility fee of One Hundred Thousand Dollars ($100,000) (the 'Credit Facility Fee'). The Credit Facility Fee shall be payable quarterly, in arrears, in equal installments of Twenty-Five Thousand Dollars ($25,000). Once received by DFS, no Credit Facility Fee shall be refundable by DFS for any reason."

(vi) Unused Line Fee. Section 3.4(e) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"(e) Unused Line Fee. To the extent the unused amount of the Credit Facility exceeds thirty-three percent (33%) of the Total Credit, Borrower agrees to pay Agent for the account of all Lenders an unused line fee of twenty-five one hundredths of one percent (.25%) per annum on the daily average of the unused amount of the Total Credit during the term of this Agreement and any renewal term. Such unused line fee shall be payable monthly in arrears and due pursuant to the applicable billing statement. Such unused amount of the Credit Facility in any month shall mean the difference between the Total Credit and the average Daily Contract Balance during such month."

(vii) Section 3.11(e)(vii). Section 3.11(e)(vii) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"(vii) The President or Chief Financial Officer of Borrower will certify to Agent by the twentieth (20th) day of each calendar month, or more often if reasonably requested by Agent, that to the best of his knowledge, after reasonable inquiry, Borrower is in compliance with the Financial Covenants as set forth in Section 9.3 hereof, in a form acceptable to Agent in its sole discretion;"

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

4.1 Termination. This Agreement will continue in full force and effect and be non-cancellable for one (1) year from November 30, 1999, (except that it may be terminated by Agent in the exercise of Agent's and Lender's rights and remedies upon Default by Borrower) and after the expiration of such one-year period, shall be subject to one (1) automatic one-year renewal period thereafter unless at least (x) 120 days, or (y) 90 days (if Borrower has failed to deliver its audited annual financial statements to Agent under Section 3.11(e)(i) hereof on or before March 15 in any calendar year), prior to the expiration of such initial period or any renewal period, any party shall have addressed all other parties in writing of its intention not to renew this Agreement. Notwithstanding the foregoing, Borrower may terminate this Agreement prior to such date upon (a) at least 120 days written notice to Agent; (b) payment to Agent and Lenders of all Obligations; and (c) payment to Agent for the account of Lenders of an amount equal to one percent (1.00%) of the Total Credit.

Termination on any date other than the anniversary date will not entitle Borrower to a refund of any fee. Agent, Lender and/or DFS, as applicable, shall be entitled to payment of all fees upon Default by Borrower which would have been payable during the original term of this Agreement (or any extension thereof) but for such early termination. These accelerated fees represent liquidated damages and are not a penalty. Any such written notice of termination delivered by Borrower to Agent shall be irrevocable. Borrower may elect to terminate this Agreement in its entirety only; no section or lending facility may be terminated singly.

Notwithstanding anything in this Section 4.1 to the contrary, (a) if Borrower is charged any additional amounts pursuant to Section 3.13 of this Agreement, and the imposition of such charge (which solely for purposes of the computation in this sentence shall be treated as additional interest) would have the effect in the aggregate with all other such additional charges of increasing the effective interest rate payable pursuant to Section 3.3 of this Agreement by an amount greater than one-half of one percent (0.50%) per annum, and (b) if Borrower delivers a copy of an executed commitment from a third party to provide financing to Borrower at a rate that is one-half of one percent (.5%) per annum less than the proposed rate payable hereunder after giving effect to such Section 3.13 increases, then Borrower may terminate this Agreement, in accordance with the terms of this Agreement, and shall not be liable to Agent for payment of any of the termination charges referred to in this Section 4.1.

(ix) Capital Expenditures. Section 9.2.9 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

> "9.2.9 Capital Expenditures. Borrower will not make, or commit to make, any expenditure for capital improvements (including, without limitation, capitalized leases) or the acquisition of capital goods in excess of Five Million Dollars ($5,000,000) during any calendar year."

(x) Financial Covenants. Section 9.3.1 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

> "9.3.1 Amounts. Borrower agrees that it will:
>
> (a) at all times maintain a Tangible Net Worth plus Subordinated Debt in the combined amount of not less than the amount shown below for the period corresponding thereto:

Period	Amount
Calendar quarter ending 12/31/99	$40,000,000
Calendar quarter ending 3/31/00	$40,000,000
Calendar quarter ending 6/30/00	$40,000,000
Calendar quarter ending 9/30/00	$40,000,000;

(b) at all times maintain a ratio of Debt minus Subordinated Debt to Tangible Net Worth plus Subordinated Debt of not more than the amount shown below for the period corresponding thereto:

Period	Ratio
Calendar quarter ending 12/31/99	4.0 to 1.0
Calendar quarter ending 3/31/00	4.0 to 1.0
Calendar quarter ending 6/30/00	4.0 to 1.0
Calendar quarter ending 9/30/00	7.0 to 1.0;

(c) at all times maintain a ratio of Current Assets to current liabilities of not less than the amount shown below for the period corresponding thereto:

Period	Ratio
Calendar quarter ending 12/31/99	1.2 to 1.0
Calendar quarter ending 3/31/00	1.2 to 1.0
Calendar quarter ending 6/30/00	1.2 to 1.0
Calendar quarter ending 9/30/00	1.1 to 1.0

(d) for the fiscal year of Borrower ending December 31, 1999, Borrower shall achieve net income, before giving effect to provisions for income taxes, of at least One Million Dollars ($1,000,000.00). For the fiscal year of Borrower ending December 31, 2000, and each fiscal year thereafter, Borrower shall achieve net income, before giving effect to provisions for income taxes, of at least Two Million Dollars ($2,000,000.00).

Prior to September 30, 2000, Agent and Borrower shall renegotiate the above financial covenants for application to any subsequent periods of this Agreement. If on or prior to September 30, 2000, the parties fail to execute a written amendment to this Agreement providing for such revised financial covenants for any subsequent periods of this Agreement, then the above financial covenants in effect for the calendar quarter ending June 30, 2000, shall be and remain in effect, until such amendment is executed and in full force and effect.

For purposes of this paragraph: (i) "Tangible Net Worth" means the book value of Borrower's assets less liabilities (including as liabilities all recorded reserves for contingencies and other potential liabilities), excluding from such assets all Intangibles; (ii) "Intangibles" means and includes general intangibles (as that term is defined in the UCC); accounts receivable and advances due from officers, directors, member, owner, employees, stockholders and affiliates; leasehold improvements net of depreciation; licenses; good will; prepaid expenses (except for those determined by Agent, in its sole discretion, not to be Intangible); escrow deposits (except for those determined by Agent, in its sole discretion, not to be Intangible); covenants not to compete; the excess of cost over book value of acquired assets; franchise fees; organizational costs; finance reserves held for recourse obligations; capitalized research and development costs; and such other similar items as DFS may from time to time determine in DFS' sole discretion; (iii) "Debt" means all of Borrower's liabilities and indebtedness for borrowed money of any kind and nature whatsoever, whether direct or indirect, absolute or contingent, and including obligations under capitalized leases, guaranties or with respect to which Borrower has pledged assets to secure performance, whether or not direct recourse liability has been assumed by Borrower; (iv) "Subordinated Debt" means all of Borrower's Debt which is subordinated to the payment of Borrower's liabilities to the Lenders by an agreement in form and substance satisfactory to Agent; and (v) "Current Assets" means Borrower's current assets. The foregoing terms will be determined in accordance with GAAP consistently applied, and, if applicable, on a consolidated basis ("Financial Covenants")."

(xi) The following clause is incorporated into the Agreement as Section 9.3.2:

> "9.3.2 Waiver Fee If Borrower breaches any of the financial covenants set forth herein in Section 9.3.1, Lenders may thereupon request that Borrower pay a fee to Lenders in consideration of Lenders' agreement to waive the Default caused by such breach."

4. Consent. Borrower has requested that Lenders consent to the Borrower's purchase of its stock from third-party shareholders of the Borrower. Lenders hereby consent to the Borrower's purchase of its stock provided that: (i) the aggregate purchase price of such stock shall not exceed Five Million Two Hundred Fifty Thousand Dollars ($5,250,000); and (ii) Borrower shall not breach any financial covenant set forth in Section 9.3.1 herein as a result of Borrower's payment of the purchase price for such stock.

5. Miscellaneous. Except to the extent specifically amended herein, all terms and conditions of the Credit Agreement and the other Loan Documents are hereby ratified and reaffirmed and shall remain in full force and effect. Capitalized terms used but not defined herein shall have the meanings given them in the Credit Agreement. Borrower waives notice of Agent's and each Lender's acceptance of this Amendment. Agent and each Lender reserves all of their respective rights and remedies under the Credit Agreement and other Loan Documents.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment as of the date first written above.

GOVERNMENT TECHNOLOGY SERVICES, INC.

By: ____________/s/________________
Name : ________________________________
Title: ________________________________

DEUTSCHE FINANCIAL SERVICES CORPORATION,
as Agent and a Lender

By: ___________/s/________________
Name: ______________________________
Title: ______________________________

CRESTAR BANK, a Lender

By: ____________/s/_________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

FLEET CAPITAL CORPORATION, a Lender

By: ____________/s/_________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

CONSENT AND ACKNOWLEDGMENT

The undersigned Guarantor hereby acknowledges and consents to the terms of the foregoing Amendment, and does hereby ratify and confirm its Guaranty in all respects.

FALCON MICROSYSTEMS, INC.

By: ____________/s/_________________
Name: ________________________________
Title: ________________________________
Date: ________________________________

EXHIBIT A

Lender (Pro Rata Share)	First Seasonal Period Commitment (Feb-Apr)	Second Seasonal Period Commitment (May-June)	Third Seasonal Period Commitment (July-Sept)	Fourth Seasonal Period Commitment (Oct-Jan)
DFS (42.00%)	$12,600,000	$8,500,000	$21,000,000	$21,000,000
Crestar (25.40%)	$7,600,000	$5,000,000	$12,700,000	$12,700,000
Fleet (32.60%)	$9,800,000	$6,500,000	$16,300,000	$16,300,000
Total of Commitments	$30,000,000	$20,000,000	$50,000,000	$50,000,000

EXHIBIT 10.46

ADDENDUM TO AGREEMENT FOR WHOLESALE FINANCING

This Addendum is made to that certain Agreement for Wholesale Financing entered into by and between Government Technology Services, Inc. ("Dealer") and Deutsche Financial Services Corporation ("DFS") as of June 27, 1996, as amended ("Agreement").

FOR VALUE RECEIVED, Dealer and DFS agree that the following paragraph shall be incorporated into the Agreement as if fully and originally set forth therein:

"Financial Covenants." Dealer agrees that it will:

(a) at all times maintain a Tangible Net Worth plus Subordinated Debt in the combined amount of not less than the amount shown below for the period corresponding thereto:

Period	Amount
Calendar quarter ending 12/31/99	$40,000,000
Calendar quarter ending 3/31/00	$40,000,000
Calendar quarter ending 6/30/00	$40,000,000
Calendar quarter ending 9/30/00	$40,000,000;

(b) at all times maintain a ratio of Debt minus Subordinated Debt to Tangible Net Worth plus Subordinated Debt of not more than the amount shown below for the period corresponding thereto:

Period	Ratio
Calendar quarter ending 12/31/99	4.0 to 1.0
Calendar quarter ending 3/31/00	4.0 to 1.0
Calendar quarter ending 6/30/00	4.0 to 1.0
Calendar quarter ending 9/30/00	7.0 to 1.0;

(c) at all times maintain a ratio of Current Assets to current liabilities of not less than the amount shown below for the period corresponding thereto:

Period	Ratio
Calendar quarter ending 12/31/99	1.2 to 1.0
Calendar quarter ending 3/31/00	1.2 to 1.0
Calendar quarter ending 6/30/00	1.2 to 1.0
Calendar quarter ending 9/30/00	1.1 to 1.0; and

Prior to September 30, 2000, DFS and Dealer shall renegotiate the above financial covenants for application to any subsequent periods of this Agreement. If on or prior to September 30, 2000, the parties fail to execute a written amendment to this Agreement providing for such revised financial covenants for any subsequent periods of this Agreement, then the above financial covenants in effect for the calendar quarter ending June 30, 2000, shall be and remain in effect, until such amendment is executed and in full force and effect.

(d) for the fiscal year of Dealer ending December 31, 1999, Dealer shall achieve net income, before giving effect to provisions for income taxes, of at least One Million Dollars ($1,000,000.00). For the fiscal year of Dealer ending December 31, 2000, and each fiscal year thereafter, Dealer shall achieve net income, before giving effect to provisions for income taxes, of at least Two Million Dollars ($2,000,000.00)."

For purposes of this paragraph: (i) "Tangible Net Worth" means the book value of Dealer's assets less liabilities (including as liabilities all recorded reserves for contingencies and other potential liabilities), excluding from such assets all Intangibles; (ii) Intangibles" means and includes general intangibles (as that term is defined in the UCC); accounts receivable and advances due from officers, directors, member, owner, employees, stockholders and affiliates; leasehold improvements net of depreciation; licenses; good will; prepaid expenses (except for those determined by Agent, in its sole discretion, not to be Intangible); escrow deposits (except for those determined by Agent, in its sole discretion, not to be Intangible); covenants not to compete; the excess of cost over book value of acquired assets; franchise fees; organizational costs; finance reserves held for recourse obligations; capitalized research and development costs; and such other similar items as DFS may from time to time determine in DFS' sole discretion; (iii) "Debt" means all of Dealer's liabilities and indebtedness for borrowed money of any kind and nature whatsoever, whether direct or indirect, absolute or contingent, and including obligations under capitalized leases, guaranties or with respect to which Dealer has pledged assets to secure performance, whether or not direct recourse liability has been assumed by Dealer; (iv) "Subordinated Debt" means all of Dealer's Debt which is subordinated to the payment of Dealer's liabilities to the Lenders by an agreement in form and substance satisfactory to Agent; and (v) "Current Assets" means Dealer's current assets. The foregoing terms will be determined in accordance with GAAP consistently applied, and, if applicable, on a consolidated basis."

IN WITNESS WHEREOF, the parties hereto have executed this Addendum on this 23rd day of November, 1999.

GOVERNMENT TECHNOLOGY SERVICES, INC.

ATTEST:

By: ______________/s/___________________
Title: ___________________________________
______________/s/___________________
(Assistant) Secretary

DEUTSCHE FINANCIAL SERVICES CORPORATION

By: ______________/s/___________________
Title: ___________________________________

EXHIBIT 11.1

COMPUTATION OF EARNINGS PER SHARE

(In thousands, except per share amounts)	Years Ended		
	1999	1998	1997
Net income (loss)	$ 2,682	$ 2,339	$ (5,104)
Earnings (loss) per share (basic)	$ 0.29	$ 0.27	$ (0.76)
Earnings (loss) per share (diluted)	$ 0.29	$ 0.26	$ (0.76)
Weighted average number of common stock outstanding	9,271	8,700	6,733
Weighted average effect of common shares equivalents	43	209	-
Weighted average of common and common shares equivalents outstanding	9,314	8,909	6,733

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 23, 2000 included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-8 (File Nos. 33-44363, 33-55090, 333-29439, 333-62681 and 333-78199).

ARTHUR ANDERSEN LLP

Vienna, Virginia
March 24, 2000

EXHIBIT 27.1

FINANCIAL DATA SCHEDULE

Article 5	
Multiplier	1,000
Period Type	Year
Fiscal Year End	Dec-31-1999
Period End	Dec-31-1999
Cash	149
Securities	-
Receivables	127,828
Allowances	(2,649)
Inventory	41,483
Current-Assets	172,868
PP&E	24,774
Depreciation	(12,147)
Total Assets	186,333
Current-Liabilities	128,519
Bonds	-
Preferred-Mandatory	-
Preferred	-
Common	49
Other-SE	53,147
Total-Liability-And-Equity	186,333
Sales	668,488
Total-Revenues	668,488
CGS	618,381
Total-Costs	618,381
Other-Expenses	48,883
Loss-Provision	(368)
Interest-Expense, net	(1,090)
Income-Pretax	2,682
Income-Tax	-
Income-Continuing	-
Discontinued	-
Extraordinary	-
Changes	-
Net-Income	2,682
EPS-Primary	0.29
EPS-Diluted	0.29