

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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-26408

Programmer's Paradise, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3136104  
(I.R.S. Employer Identification No.)

1157 Shrewsbury Avenue, Shrewsbury, New Jersey 07702  
(Address of principal executive offices)

Registrant's Telephone Number (732) 389-8950

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 and Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act. Yes  No

There were 3,990,535 outstanding shares of Common Stock, par value \$.01 per share, as of April 26, 2005, not including 1,293,965 shares classified as treasury stock.

**PART I – FINANCIAL INFORMATION**

**PROGRAMMER’S PARADISE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)**

	March 31, <u>2005</u> (Unaudited)	December 31, <u>2004</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 5,107	\$ 4,888
Marketable Securities	6,820	6,595
Accounts receivable, net	14,196	14,173
Inventory – finished goods	1,283	1,423
Prepaid expenses and other current assets	590	673
Deferred income taxes, current	<u>1,365</u>	<u>1,423</u>
Total current assets	29,361	29,175
Equipment and leasehold improvements, net	497	303
Other assets	639	581
Deferred income taxes, net of current	<u>2,913</u>	<u>2,855</u>
Total assets	<u>\$ 33,410</u>	<u>\$ 32,914</u>
<b>LIABILITIES AND STOCKHOLDERS’ EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 16,021	\$ 15,994
Dividend payable	<u>474</u>	<u>425</u>
Total current liabilities	16,495	16,419
Commitments and contingencies		
Stockholders’ equity		
Common stock, \$.01 par value; authorized, 10,000,000 shares; issued 5,284,500 shares	53	53
Additional paid-in capital	32,426	32,642
Treasury stock, at cost, 1,331,465 shares and 1,418,090 shares, respectively	(3,784)	(4,130)
Accumulated deficit	(11,923)	(12,223)
Accumulated other comprehensive income	<u>143</u>	<u>153</u>
Total stockholders’ equity	<u>16,915</u>	<u>16,495</u>
Total liabilities and stockholders’ equity	<u>\$ 33,410</u>	<u>\$ 32,914</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
**(Unaudited)**  
**(In thousands, except per share data)**

	Three months ended	
	March 31,	
	2005	2004
Net sales	\$ 30,169	\$ 20,679
Cost of sales	26,740	18,078
Gross profit	3,429	2,601
Selling, general and administrative expenses	2,985	2,222
Income from operations	444	379
Interest income, net	67	39
Realized foreign exchange loss	(11)	(21)
Income before income tax provision	500	397
Provision for income taxes	200	35
Net income	\$ 300	\$ 362
Net income per common share - Basic	\$ 0.08	\$ 0.10
Net income per common share – Diluted	\$ 0.07	\$ 0.09
Weighted average common shares outstanding- Basic	3,922	3,797
Weighted average common shares outstanding- Diluted	4,445	4,084
<u>Reconciliation to comprehensive income:</u>		
Net Income	\$ 300	\$ 362
Other comprehensive income(loss), net of tax:		
Unrealized gain (loss) on marketable securities	-	10
Foreign currency translation adjustments	(10)	(38)
Total comprehensive income	\$ 290	\$ 334

The accompanying notes are an integral part of these condensed consolidated financial statements.

**PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(Unaudited)  
(In thousands, except share amounts)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Deficit</u>	<u>Accumulated other comprehensive Income</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at January 1, 2005	5,284,500	\$53	\$32,642	\$(4,130)	\$(12,223)	\$153	\$16,495
Net income					300		300
Other comprehensive income:							
Exercise of stock options				346			346
Dividend declared payable			(474)				(474)
Translation adjustment						(10)	(10)
Tax Benefit from exercises of non-qualified stock options			258				258
Balance at March 31, 2005	<u>5,284,500</u>	<u>\$53</u>	<u>\$32,426</u>	<u>\$(3,784)</u>	<u>\$(11,923)</u>	<u>\$143</u>	<u>\$16,915</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	Three months Ended	
	March 31,	
	2005	2004
Cash flows from operating activities		
Net income	\$ 300	\$ 362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	57	52
Allowance for doubtful accounts	27	15
Accretion of marketable securities	-	10
Tax benefit from exercise of stock options	258	-
Changes in operating assets and liabilities:	(111)	
Accounts receivable	140	(1,515)
Inventory	83	(138)
Prepaid expenses and other current assets	27	(214)
Accounts payable and accrued expenses	-	1,179
Net change in other assets and liabilities	781	(3)
Net cash provided by (used in) operating activities		(252)
Cash flows from investing activities:	(4,225)	
Purchases of available-for-sale securities	4,000	(3,550)
Redemptions of available-for-sale securities	(248)	1,000
Capital expenditures	(473)	(30)
Net cash used in investing activities		(2,580)
Cash flows from financing activities:	(425)	
Dividend paid	346	(375)
Proceeds from exercise of stock options	(79)	190
Net cash used in financing activities		(185)
	(10)	
Effect of foreign exchange rate on cash		(38)
	219	
Net increase (decrease) in cash and cash equivalents	4,888	(3,055)
Cash and cash equivalents at beginning of period	\$ 5,107	5,878
Cash and cash equivalents at end of period		\$ 2,823

The accompanying notes are an integral part of these condensed consolidated financial statements.

**PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**March 31, 2005**  
**(Unaudited)**

1. The accompanying unaudited condensed consolidated financial statements of Programmer's Paradise, Inc. and its subsidiaries (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the opinion of the Company's management, all adjustments that are of a normal recurring nature, considered necessary for fair presentation, have been included. Actual results may differ from these estimates under different assumptions or conditions. The unaudited condensed consolidated statements of operations for the interim periods are not necessarily indicative of results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities Exchange Commission for the year ended December 31, 2004.

2. Assets and liabilities of the Company's Canadian subsidiary have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the year. The revenue from our Canadian operations in the first three months of 2005 increased by \$1.0 million to \$3.9 million as compared to the first three months of 2004.
3. Cumulative translation adjustments and unrealized gains (losses) on available-for-sale securities have been classified within other comprehensive income, which is a separate component of stockholders' equity in accordance with FASB Statement No. 115, "Reporting Comprehensive Income".
4. The Company records revenues from sales transactions when title to products sold passes to the customer. The Company's shipping terms dictate that the passage of title occurs upon receipt of products by the customer. The majority of the Company's revenues relates to physical products and is recognized on a gross basis with the selling price to the customer recorded as net sales with the acquisition cost of the product to the Company recorded as cost of sales. At the time of sale, the Company also records an estimate for sales returns based on historical experience. Certain software maintenance products, third party services and extended warranties sold by the Company (for which the Company is not the primary obligor) are recognized on a net basis in accordance with SAB 101, "Revenue Recognition" and EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". Accordingly, such revenues are recognized in net sales either at the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by the Company, with no cost of goods sold. In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs", the Company records freight billed to its customers as net sales and the related freight costs as a cost of sales.

In accordance with EITF 02-16, "Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)," consideration from vendors, such as advertising support funds, are accounted for as a reduction to cost of sales unless certain requirements are met showing that the vendor receives an identifiable fair value in exchange for the consideration. If these specific requirements related to individual vendors are met, the consideration is accounted for as revenue.

5. Investments in available-for-sale securities at March 31, 2005 were (in thousands):

	Cost	Market value	Unrealized Gain (loss)
U.S. Government Securities	\$ 4,778	\$ 4,776	\$ ( 2)
Corporate Bonds	<u>\$ 2,064</u>	<u>\$ 2,044</u>	<u>\$ (20)</u>
Total Marketable Securities	<u>\$ 6,842</u>	<u>\$ 6,820</u>	<u>\$ (22)</u>

The cost and market value of the Company's investments at March 31, 2005 by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$5,833	\$5,832
Due in greater than one year	<u>1,009</u>	<u>988</u>
Total investments	<u>\$6,842</u>	<u>\$6,820</u>

6. Basic EPS is computed by dividing net earnings (loss) by the weighted average number of shares outstanding during the period. Diluted EPS is computed considering the potentially dilutive effect of outstanding stock options. A reconciliation of the numerator and denominators of the basic and diluted per share computations follows (in thousands, except per share data):

	Three months ended March 31,	
	<u>2005</u>	<u>2004</u>
Numerator:		
Net Income	\$300	\$362
Denominator:		
Weighted average shares (Basic)	3,922	3,797
Dilutive effect of outstanding options	<u>523</u>	<u>287</u>
Weighted average shares including assumed conversions (Diluted)	4,445	4,084
Basic net income per share	\$0.08	\$0.10
Diluted net income per share	\$0.07	\$0.09

Changes during 2005 in options outstanding for the combined plans were as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2005	967,220	\$5.71
Granted in 2005	-	-
Canceled in 2005	(6,545)	3.36
Exercised in 2005	<u>(86,625)</u>	3.99
Outstanding at March 31, 2005	<u>874,050</u>	5.90
Exercisable at March 31, 2005	<u>862,610</u>	5.94

7. On February 17, 2005 our Board of Directors declared a quarterly dividend of \$.12 per share on our common stock payable April 22, 2005 to shareholders of record on April 4, 2005. Our Board intends to periodically review the amount and frequency of future payments, if any, in light of the Company's operations and need for capital. The dividend is reflected as a reduction of Additional Paid in Capital.
8. The Company had one major customer that accounted for 12.3% of total net sales during the quarter ended March 31, 2005, and 3.8% of total net accounts receivable as of March 31, 2005. The Company had two major vendors that accounted for 25.1% and 28.5% of total purchases, respectively, during the quarter ended March 31, 2005. The Company had one major customer that accounted for 13.9% of total net sales during the quarter ended March 31, 2004, and 5.8% of total net accounts receivable as of March 31, 2004. The Company had two major vendors that accounted for 24.0% and 14.2% of total purchases, respectively, during the quarter ended March 31, 2004.
9. For the quarter ended March 31, 2005, the Company recorded a provision for income taxes of \$200,000, which consists of a provision of \$210,000 for U.S. federal income taxes as well as a \$20,000 provision for U.S. state taxes offset by a benefit of \$30,000 for Canadian taxes. For the quarter ended March 31, 2004, the Company recorded a provision of \$35,000 which consist of a provision for Canadian income taxes.

As of March 31, 2005, the Company had a U.S. deferred tax asset of approximately \$5.1 million reflecting, in part, a benefit of \$2.7 million in U.S. federal and state tax loss carry forwards, which will expire in varying amounts between 2005 and 2024. The full realization of the tax benefit associated with the carry forward depends predominantly upon the Company's ability to generate taxable income during the carry forward period. The Company believes that uncertainty still exists regarding the realization of certain deferred tax assets, and accordingly, has established a \$0.9 million valuation allowance, based on management's estimates against these specific deferred tax assets. The valuation allowance will be evaluated at the end of each reporting period, considering positive and negative evidence about whether the deferred tax asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

The Company receives a tax deduction from the gains realized by employees on the exercise of certain non-qualified stock options for which the benefits is recognized as a component of stockholders' equity. The tax benefit of deductions related to stock options exceeds the amount expensed, \$0, for financial reporting and are accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision.

10. The Company accounts for stock option plans under the recognition and measurement principles of Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

In accordance with SFAS No. 148, the effect on net income and net income per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation is as follows:

	Three months ended March 31,	
	2005	2004
Net income - as reported	\$300	\$362
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-	(18)
Pro forma net income	<u>\$300</u>	<u>\$344</u>
Net income per share:		
Basic earnings per share - as reported	<u>\$ 0.08</u>	<u>\$ 0.10</u>
Basic earnings per share - pro forma	<u>\$ 0.08</u>	<u>\$ 0.09</u>
Net income per share:		
Diluted earnings per share - as reported	<u>\$ 0.07</u>	<u>\$ 0.09</u>
Diluted earnings per share - pro forma	<u>\$ 0.07</u>	<u>\$ 0.08</u>

There were no options granted for the three month period ended March 31, 2005.

11. In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123 (R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123 (R) is similar to the approach described in Statement 123. However, Statement 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. This revised standard will be effective for our reporting period beginning January 1, 2006.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the

heading “Certain Factors Affecting Operating Results” and elsewhere in this report. The following discussion should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2004.

**Overview**

Programmer's Paradise, Inc. operates in one primary business segment: the marketing of technical software and hardware for microcomputers, servers and networks in the United States and Canada.

We offer a wide variety of technical and general business application software and PC hardware and components from a broad range of publishers and manufacturers. We market our products through our catalogs, direct mail programs and advertisements in trade magazines as well as through Internet and e-mail promotions.

Through our wholly owned subsidiary, Lifeboat Distribution Inc., we distribute marketed products to dealers and resellers in the United States and Canada.

The Company's sales and results of operations have fluctuated and are expected to continue to fluctuate on a quarterly basis as a result of a number of factors, including: the condition of the software industry in general; shifts in demand for software products; industry shipments of new software products or upgrades; the timing of new merchandise and catalog offerings; fluctuations in response rates; fluctuations in postage, paper, shipping and printing costs and in merchandise returns; adverse weather conditions that affect response, distribution or shipping; shifts in the timing of holidays; and changes in the Company's product offerings. The Company's operating expenditures are based on sales forecasts. If revenues do not meet expectations in any given quarter, operating results may be materially adversely affected.

**Results of Operations**

The following table sets forth for the periods indicated certain financial information derived from the Company's consolidated statement of operations expressed as a percentage of net sales. This comparison of financial results is not necessarily indicative of future results:

	Three months ended <u>March 31,</u>	
	<u>2005</u>	<u>2004</u>
Net sales	100.0%	100.0%
Cost of sales	<u>88.6</u>	<u>87.4</u>
Gross profit	11.4	12.6
Selling, general and administrative expenses	<u>9.9</u>	<u>10.8</u>
Income from operations	1.5	1.8
Interest income, net	0.2	0.2
Realized Foreign exchange gain(loss)	<u>-</u>	<u>(0.1)</u>
Income before income taxes	1.7	1.9
Provision for income taxes	<u>.7</u>	<u>0.1</u>
Net income	<u>1.0%</u>	<u>1.8%</u>

**Net Sales**

Net sales in the first quarter of 2005 increased 46% or \$9.5 million to \$30.2 million compared to \$20.7 million for the same period in 2004. We attribute this growth in net sales primarily to a more favorable IT spending environment and

continued expansion of our account executive team in the first quarter of 2005. We plan to continue to invest in our sales force.

### **Gross Profit**

Gross profit as a percentage of net sales was 11.4% for the quarter ended March 31, 2005, compared to 12.6% for the same period in 2004. Because net sales increased by 46%, gross profit in absolute dollars increased \$0.8 million to \$3.4 million as compared to \$2.6 million in the first quarter of 2004.

The increase in gross profit dollars and the decrease in gross profit margins as a percentage of net sales reflects a shift in the product mix of sales and the competitive nature of our business. We have won many bids based on our aggressive pricing and we plan to continue to do so.

On a forward-looking basis, gross profit margin in future periods may be less than the 11.4% achieved in the first quarter of 2005. Changes in rebate programs can significantly affect our gross margin percentage. We foresee possible pressure on profit margins as a result of various factors, including the continued participation by vendors in inventory price protection and rebate programs, product mix, including software maintenance and third party services, pricing strategies, market conditions and other factors, any of which could result in a reduction of gross profit below those realized in the first quarter of 2005.

### **Selling, General and Administrative Expenses**

Selling, General and Administrative (“SG&A”) expenses for the quarter ended March 31, 2005 were \$3.0 million as compared to \$2.2 million for the same period in 2004, an increase of \$0.8 million or 34%.

The primary drivers in SG&A expenses in the first quarter of 2005 were payroll and employee related costs. Compared to the first quarter of 2004, payroll costs increased \$0.5 million, primarily due to our continued investment in our sales force. Our sales force consists of account executives as well as vendor specialists who provide consultation in areas requiring specialized product expertise. Employee-related costs (which includes items such as commission, bonuses, fringe benefits, profit sharing and incentive awards) increased \$0.2 million, primarily a result of our increase in revenue and gross margin.

On April 11, 2005 we opened a satellite sales office in Hauppauge, New York. An additional 16 employees were hired, thus increasing our sales force by 21%. These factors, combined with increased legal requirements, including the Sarbanes-Oxley Act of 2002, will most likely result in significantly higher SG&A expenses in 2005.

### **Foreign Currency Transactions Gain (Loss)**

The realized foreign exchange loss for the quarter ended March 31, 2005 was \$11,000 compared to a loss of \$21,000 for the same period in 2004. Foreign exchange gains and losses primarily result from our trade activity with our Canadian subsidiary. Although the Company does maintain bank accounts in Canadian currencies to reduce currency exchange fluctuations, the Company is, nevertheless, subject to risks associated with such fluctuations.

### **Income Taxes**

For the quarter ended March 31, 2005, the Company recorded a provision for income taxes of \$200,000, which consists of a provision of \$210,000 for U.S. federal income taxes as well as a \$20,000 provision for U.S. state taxes offset by a benefit of \$30,000 for Canadian taxes. For the quarter ended March 31, 2004, the Company recorded a provision of \$35,000 which consist of a provision for Canadian income taxes

As of March 31, 2005, the Company had a U.S. gross deferred tax asset of approximately \$5.1 million reflecting, in part, a benefit of \$2.7 million in U.S. federal and state tax loss carry forwards, which will expire in varying amounts between 2005 and 2024. The full realization of the tax benefit associated with the carry forward depends predominantly upon the Company's ability to generate taxable income during the carry forward period. The Company believes that uncertainty still exists regarding the realization of certain deferred tax assets, and accordingly, has established a \$0.9 million valuation allowance, based on management's estimates against these specific deferred tax assets. The valuation allowance will be evaluated at the end of each reporting period, considering positive and negative evidence about whether the deferred tax asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

### **Liquidity and Capital Resources**

During the first three months of 2005, our cash and cash equivalents increased by \$0.2 million to \$5.1 million at March 31, 2005, from \$4.9 million at December 31, 2004. Net cash provided by operating activities amounted to \$0.8 million; net cash used in investing activities amounted to \$0.5 million and net cash used in financing activities amounted to \$0.1 million.

Net cash provided by operating activities in the first three months of 2005 was \$0.8 million and primarily resulted from our income from operations excluding non-cash charges \$0.6 million and a \$0.1 million decrease in inventory. This was partly offset by a \$0.1 million increase in accounts receivable. The increase in accounts receivable relates primarily to our increased revenue. Days sales outstanding increased to 42 days as per March 31, 2005 as compared to 40 days as per March 31, 2004.

Net cash used in investing activities in the first three months of 2005 amounted to \$0.5 million. In light of the current low interest rates on our short-term savings accounts we decided to invest an additional net \$0.2 million in U.S. government securities. These securities are highly rated and highly liquid. These securities are classified as available-for-sale securities in accordance with SFAS 115, and as a result unrealized gains and losses are reported as part of other comprehensive income (loss). The other \$0.3 million consisted of capital expenditures.

Net cash used for financing activities in the first three months of 2005 of \$0.1 million consisted of the \$0.4 million payment of our declared dividends, which was partly offset by the proceeds from the exercise of options.

On September 16, 2002, our Board of Directors authorized the purchase of 500,000 shares of our common stock. On October 9, 2002, our Board of Directors authorized us to purchase an additional 500,000 shares of our common stock. These two purchase approvals are in addition to authorizations for us to purchase 490,000 shares (granted in March 2002) and 521,013 shares (granted in October 1999) in both open market and private transactions, as conditions warrant.

The repurchase program is expected to remain effective for the remainder of 2005. We intend to hold the repurchased shares in treasury for general corporate purposes, including issuances under various stock option plans. As of March 31, 2005, we owned 1,331,465 shares of our common stock purchased at an average cost of \$3.18 per share. During the first three months of 2005, we did not repurchase any shares of our common stock.

The Company's current and anticipated use of its cash and cash equivalents is, and will continue to be, to fund working capital, operational expenditures, the stock buyback program and dividends if declared by the board of directors. Our business plan furthermore contemplates to continue to use our cash to pay vendors promptly in order to obtain more favorable conditions.

We believe that the funds held in cash and cash equivalents will be sufficient to fund our working capital and cash requirements for at least the next 12 months. We currently do not have any credit facility and, in the foreseeable future, we do not plan to enter into an agreement providing for a line of credit.

Contractual Obligations as of March 31, 2005 were summarized as follows:  
(Dollars in thousands)

	Payment due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	-	-	-	-	-
Capital Lease Obligations	-	-	-	-	-
Operating Leases	\$1,542	\$579	\$888	\$75	-
Unconditional Purchase Obligations	-	-	-	-	-
Other Long term Obligations	-	-	-	-	-
<b>Total Contractual Obligations</b>	<b>\$1,542</b>	<b>\$579</b>	<b>\$888</b>	<b>\$75</b>	<b>-</b>

Operating leases primarily relates to the lease of the space used for our operations in Shrewsbury and Mount Laurel, New Jersey, Mississauga, Canada and Hauppauge, New York. The commitments for operating leases include the minimum rent payments and a proportionate share of operating expenses and property taxes.

The Company is not committed by lines of credit, standby letters of credit, has no standby repurchase obligations or other commercial commitments. The Company is not engaged in any transactions with related parties.

As of March 31, 2005, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

### **Critical Accounting Policies and Estimates**

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company recognizes revenue from the sale of software and hardware for microcomputers, servers and networks upon shipment or upon electronic delivery of the product. The Company expenses the advertising costs associated with producing its catalogs. The costs of these catalogs are expensed in the same month the catalogs are mailed.

On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, restructuring and contingencies and litigation.

The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company records revenues from sales transactions when title to products sold passes to the customer. The Company's shipping terms dictate that the passage of title occurs upon receipt of products by the customer. The majority of the Company's revenues relates to physical products and is recognized on a gross basis with the selling price to the customer recorded as net sales with the acquisition cost of the product to the Company recorded as cost of sales. At the time of sale, the Company also records an estimate for sales returns based on historical experience. Certain software maintenance products, third party services and extended warranties sold by the Company (for which the Company is not the primary obligor) are recognized on a net basis in accordance with SAB 101, "Revenue Recognition" and EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". Accordingly, such revenues are recognized in net sales either at the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by the Company, with no cost of goods sold. In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs", the Company records freight billed to its customers as net sales and the related freight costs as a cost of sales.

In accordance with EITF 02-16, "Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)," consideration from vendors, such as advertising support funds, are accounted for as a reduction to cost of sales unless certain requirements are met showing that the vendor receives an identifiable fair value in exchange for the consideration. If these specific requirements related to individual vendors are met, the consideration is accounted for as revenue.

The Company believes the following critical accounting policies used in the preparation of its consolidated financial statements affect its more significant judgments and estimates. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required.

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Based upon the Company's profitable operations since December 31, 2002, and its expected profitability in future years, the Company has concluded that the results of future operations will generate sufficient taxable income to realize certain deferred tax assets. The Company believes that uncertainty still exists regarding the realizability of certain tax assets, and accordingly, has established a \$0.9 million valuation allowance, based on management's estimates, against these specific deferred tax assets. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

### **Certain Factors Affecting Operating Results**

This report includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Statements in this report regarding future events or conditions, including statements regarding industry prospects and the Company's expected financial position, business and financing plans, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. We strongly urge current and prospective investors to carefully consider the cautionary statements and risks contained in this report. Such risks include, but are not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, contribution of key vendor relationships and support programs, as well as factors that affect the software industry in general.

The Company operates in a rapidly changing business, and new risk factors emerge from time to time. Management cannot predict every risk factor, nor can it assess the impact, if any, of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements.

Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The statement concerning future sales and future gross profit margin are forward looking statements involving certain risks and uncertainties such as availability of products, product mix, market conditions and other factors, which could result in a fluctuation of sales below recent experience.

*Stock Volatility.* The technology sector of the United States stock markets has experienced substantial volatility in recent periods. Numerous conditions, which impact the technology sector or the stock market in general or the Company in particular, whether or not such events relate to or reflect upon the Company's operating performance, could adversely affect the market price of the Company's Common Stock.

Furthermore, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor, increased competition, reduced vendor incentives and trade credit, higher postage and operating expenses, and other developments, could have a significant impact on the market price of the Company's Common Stock.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

In addition to its activities in the United States, the Company also conducts business in Canada. We are subject to general risks attendant to the conduct of business in Canada, including economic uncertainties and foreign government regulations. In addition, the Company's Canadian business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors.

The Company's \$6.8 million investments in marketable securities are only in highly rated and highly liquid corporate bonds and U.S. government Securities. The remaining cash balance is invested in short-term savings accounts with our primary bank, The Bank of New York. As such, the risk of significant changes in the value of our cash invested is minimal.

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" as of March 31, 2005. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2005. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

*Changes in Internal Control Over Financial Reporting.* As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter ended March 31, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation during the quarter ended March 31, 2005 there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 6. Exhibits**

- (a) Exhibits.
  - 31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of William H. Willett, the Chief Executive Officer of the Company.
  - 31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Simon F. Nynens, the Chief Financial Officer of the Company.
  - 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of William H. Willett, the Chief Executive Officer of the Company.
  - 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Simon F. Nynens, the Chief Financial Officer of the Company.

**SIGNATURES**

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

PROGRAMMER'S PARADISE, INC.

\_\_\_\_\_  
May 2, 2005  
Date

By: \_\_\_\_\_  
Simon F. Nynens, Executive Vice President  
and Chief Financial Officer

\_\_\_\_\_  
May 2, 2005  
Date

By: \_\_\_\_\_  
William H. Willett, Chairman of the Board,  
President and Chief Executive Officer

