

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 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, 2004**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-26408

**PROGRAMMER'S PARADISE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation)

**13-3136104**

(IRS Employer Identification Number)

**1157 Shrewsbury Avenue, Shrewsbury, New Jersey**

(Address of principal executive offices)

**07702**

(Zip Code)

Registrant's telephone number, including area code: **(732) 389-8950**

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

Securities registered pursuant to section 12(g) of the Act: **Common Stock, par value \$0.01 per share**  
(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 other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant computed by reference to the closing sale price for the Registrant's Common Stock as of June 30, 2004, the last business day of the Registrant's most recently completed second fiscal quarter, as reported on The NASDAQ SmallCap Market, was approximately \$24,236,000. (In determining the market value of the Common Stock held by any non-affiliates, shares of Common Stock of the Registrant beneficially owned by directors, officers and holders of more than 10% of the outstanding shares of Common Stock of the Registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.)

The number of shares outstanding of the Registrant's Common Stock as of March 7, 2005 was 3,954,335 shares.

Documents Incorporated by Reference: Portions of the Registrant's definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be filed on or before April 30, 2005 are incorporated by reference into Part III of this Report.

## **PART I**

### **Item 1 Business**

#### **General**

Programmer's Paradise, Inc. (the "Company") is a recognized marketer of software in the United States and Canada targeting software development and information technology professionals within enterprise organizations.

Programmer's Paradise, Inc. was incorporated in Delaware in 1982. Our Common Stock is listed on The NASDAQ Smallcap Market under the symbol "PROG". Our main Web site addresses are [www.programmersparadise.com](http://www.programmersparadise.com) and [www.programmersparadise.ca](http://www.programmersparadise.ca). Information on our Web sites should not be considered filed with the Securities and Exchange Commission. Information contained on our Web sites is not, and should not be deemed to be, a part of this report.

The Company 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 from a broad range of publishers and manufacturers. We market these products through our well-known catalogs, direct mail programs, advertisements in trade magazines, as well as through Internet and e-mail promotions. Through our wholly owned subsidiary, Lifeboat Distribution Inc., we distribute products to dealers and resellers in the United States and Canada.

The Company's catalogs are full color "magalogs" and offer some of the most complete collections of microcomputer technical software, including programming languages, tools, utilities, libraries, development systems, interfaces and communication products.

#### **Competition**

The software distribution market is highly competitive. Pricing is very aggressive and the Company expects pricing pressure to continue. The Company faces competition from a wide variety of sources including: vendors who sell direct to customers; software resellers; superstores; catalogs; Web sites; and other direct marketers of software products. Some of our competitors are significantly larger and have substantially greater resources than the Company. Many of our competitors compete principally on the basis of price, product availability, customer service and technical support. The market for developer software products is characterized by rapid changes in technology, user requirements, and customer specifications. The Company competes in acquiring prospective buyers and in sourcing new products from software developers and publishers, as well as in marketing its current product line to its customers.

There can be no assurance that the Company can compete effectively against existing competitors or new competitors that may enter the market and generate profit margins which represent a fair return to the Company. In addition, price is an important competitive factor in the personal computer software market and there can be no assurance that the Company will not be subject to increased price competition. An increase in the amount of competition faced by the Company, or its failure to compete effectively against its competitors, could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company believes that its ability to offer software developers and information technology (IT) professionals a wide selection of products at low prices with prompt delivery and high customer service levels, along with its good relationships with vendors and suppliers, allow it to compete effectively. The

Company competes to gain distribution rights for new products primarily on the basis of its reputation and its relationships with software publishers.

The manner in which software products are distributed and sold is changing, and new methods of distribution and sale may emerge or expand. Software developers and publishers have sold, and may intensify their efforts to sell, their products directly to end-users. The evolution of the Internet as a viable platform in which to conduct e-commerce business transactions has both lowered the barriers for competition and broadened customer access to products and information. From time to time certain software developers and publishers have instituted programs for the direct sale of large order quantities of software to certain major corporate accounts. These types of programs may continue to be developed and used by various developers and publishers. While Microsoft and other vendors currently sell new releases or upgrades directly to end users, they have not attempted to completely bypass the reseller channel. Future efforts by such entities to bypass third-party sales channels could materially and adversely affect the Company's result of operations.

In addition, resellers and publishers may attempt to increase the volume of software products distributed electronically through ESD (Electronic Software Distribution) technology, through subscription services, and through on-line shopping services. Any of these competitive programs, if successful, could have a material adverse effect on the Company's result of operations.

## **Products**

The Company offers a wide variety of products from a broad range of publishers and manufacturers, including Microsoft, Computer Associates, IBM, VMware, Borland, Quest software, Compuware, Infragistics, ComponentOne, Installshield and Adobe. On a continuous basis, new products are screened for inclusion in our catalogs and Web sites based on their features, quality, price, profit margins and warranties, as well as on current sales trends. In 2004 and 2003, hardware and peripherals represented 6% and 7%, respectively, of our overall revenue. In 2002 these sales represented less than 5% of our overall revenue.

## **Marketing and Distribution**

We market products through creative marketing communications, our catalogs, our Web sites, industry magazines, and national trade shows. We also use direct e-mail and printed material to introduce new products and upgrades, to cross-sell products to current customers, and to educate and inform. We believe that our catalogs are important marketing vehicles for software publishers and manufacturers. These catalogs provide a cost-effective and service-oriented means to market, sell and fulfill software products. The Company has two primary catalogs: Programmer's Paradise, targeting software developers; and Corporate Developer's Paradise, targeting information technology professionals working in large corporations. These catalogs are full color "magalogs" that combine traditional catalog sales offerings with detailed product descriptions and announcements, and which contain cooperative vendor advertising.

The Company offers additional catalogs aimed at specific audiences. Significant increases in postal or shipping rates and in paper costs could have a material adverse effect on the Company. We continually attract new customers through advertisements in trade magazines, as well as through selectively mailing catalogs and other direct mail material. Prospect names are also provided to us by publishers whose products we market. In 2004, the Company's cooperative and fee-based advertising reimbursements as a percentage of sales decreased to 4% from 6% in 2003.

One customer, CDW Corporation, accounted for 12.7% and 11.8% of consolidated net sales in 2004 and 2003, respectively, and 3.3% and 7.0% of accounts receivable as of December 31, 2004 and 2003, respectively. Our top five customers accounted for 22% of consolidated net sales in 2004 and 2003. The

Company generally ships products within 48 hours of confirming a customer's order. This allows for minimum backlog in the business.

Canadian sales represented 11% of consolidated revenues in 2004 as compared to 15% in 2003, (for geographic financial information, please refer to Note Nine to our Notes to Consolidated Financial Statements).

### **Customer Support**

We believe that providing a high level of customer service is necessary to compete effectively and is essential to continued sales and revenue growth. Our account representatives assist our customers with all aspects of purchasing decisions; process products ordered and respond to customer inquiries on order status, product pricing and availability. The account representatives are trained to answer all basic questions about the features and functionality of products. For technical issues we have an in-house technical support staff.

### **Purchasing and Fulfillment**

The Company's success is dependent, in part, upon the ability of its suppliers to develop and market products that meet the changing requirements of the marketplace. The Company believes it enjoys good relationships with its vendors. The Company and its principal vendors have cooperated frequently in product introductions and in other marketing programs. As is customary in the industry, the Company has no long-term supply contracts with any of its suppliers. Substantially all the Company's contracts with its vendors are terminable upon 30 days' notice or less. The manner in which software products are distributed and sold is changing, and new methods of distribution and sale may emerge or expand. Software publishers have sold, and may intensify their efforts to sell, their products directly to end-users. The Company's business and results of operations may be adversely affected if the terms and conditions of the Company's authorizations with its vendors were to be significantly modified or if certain products become unavailable to the Company.

We believe that effective purchasing from a diverse vendor base is a key element of our business strategy. For the year ended December 31, 2004, Ingram Micro and VMWare were the only individual vendors from whom our purchases exceeded 10% of total purchases. For the year ended December 31, 2004 and 2003, these two vendors accounted for 25.0% and 27.7%, respectively, and 22.9% and 13.8%, respectively, of total purchases. The loss of these vendors, or any other key vendor, could have an adverse effect on the Company.

In 2004, the Company purchased approximately 72% of its purchases directly from manufacturers and publishers and the balance from multiple distributors, as compared to 69% in 2003. Most suppliers or distributors will "drop ship" products directly to the customers, which reduces physical handling by the Company. These inventory management techniques allow the Company to offer a greater range of products without increased inventory requirements.

Inventory levels may vary from period to period, due in part to increases or decreases in sales levels, the Company's practice of making large-volume purchases when it deems the terms of such purchases to be attractive, and the addition of new suppliers and products. Moreover, the Company's order fulfillment and inventory control allow the Company to order certain products just in time for next day shipping. The Company promotes the use of electronic data interchange ("EDI") with its suppliers, which helps reduce overhead and the use of paper in the ordering process. Although brand names and individual products are important to our business, we believe that competitive sources of supply are available for substantially all product categories we carry.

The Company operates distribution facilities in Shrewsbury, New Jersey and Mississauga, Canada.

### **Management Information Systems**

The Company operates management information systems on Windows NT and MPE platforms that allow for centralized management of key functions, including inventory, accounts receivable, purchasing, sales and distribution. We are dependent on the accuracy and proper utilization of our information technology systems, including our telephone, Web sites, e-mail and fax systems.

The management information systems allow the Company to monitor sales trends, provide product availability and order status information, track direct marketing campaign performance and to make marketing event driven purchasing decisions. In addition to the main system, the Company has systems of networked personal computers, as well as microcomputer-based desktop publishing systems, which facilitate data sharing and provide an automated office environment.

The Company recognizes the need to continually upgrade its management information systems to most effectively manage its operations and customer database. In that regard, the Company anticipates that it will, from time to time, require software and hardware upgrades for its present management information systems.

## **Trademarks**

The Company conducts its business under the various trademarks and service marks of Programmer's Paradise, the "Island Man" cartoon character logo, and Lifeboat. The Company protects these trademarks and service marks and believes that they have significant value and are important factors in its marketing programs.

## **Employees**

As of December 31, 2004, Programmer's Paradise, Inc. and its subsidiaries had 115 full-time and 2 part-time employees. The Company is not a party to any collective bargaining agreements with its employees, has experienced no work stoppages and considers its relationships with its employees to be satisfactory.

## **Executive Officers of the Company**

The executive officers of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
William H. Willett	68	President, Chief Executive Officer and Chairman of the Board
Simon F. Nynens	33	Executive Vice President and Chief Financial Officer
Jeffrey C. Largiader	48	Vice President – Sales & Marketing
Daniel T. Jamieson	47	Vice President and General Manager-Lifeboat
Steven R. McNamara	46	Vice President and General Manager – Canada
Vito Legrottaglio	41	Vice President - Information Systems

**William H. Willett** has served as a director of the Company since 1996. In July 1998, Mr. Willett was appointed to the position of Chairman, President and Chief Executive Officer.

**Simon F. Nynens** was appointed Executive Vice President and Chief Financial Officer in June 2004. Prior to this he has served as Vice-President and Chief Financial Officer from January 2002 through June 2004. Between February 2001 and January 2002, he served as Vice President. Prior to that, Mr.

Nynens served as the Vice-President and Chief Operating Officer of the Company's European operations from November 2000 through January 2001, and prior to that, he was European Controller and Corporate Controller of the Company.

**Jeffrey C. Largiader** was appointed Vice President-Sales and Marketing in April 2003. Mr. Largiader has served as the Vice-President - Marketing since 1989.

**Daniel T. Jamieson** was appointed Vice President and General Manager of Lifeboat in April 2003. Prior to that, and since 1992, Mr. Jamieson held various sales and marketing management positions with the company.

**Steven R. McNamara** has served as Vice President and General Manager – Canada since June 1997.

**Vito Legrottaglio** was appointed to the position of Vice President of Information Systems in June 2003, after rejoining the Company in February 2003. Mr. Legrottaglio had previously served as Vice President of Information Systems from 1999 to 2000 and had been with the Company since 1996. Mr. Legrottaglio has also held the positions of Chief Technology Officer at Swell Commerce Incorporated, Vice President of Operations for The Wine Enthusiast Companies and Director of Information Systems at Barnes & Noble.

## **Available Information**

Under the Securities Exchange Act of 1934, the Company is required to file annual, quarterly and current reports, proxy and information statements and other information with the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains a web site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company files electronically with the SEC. The Company makes available, free of charge, through its internet web site its reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. The following address for the Company's web site includes a hyperlink to those Reports: <http://www.programmersparadise.com/company/overview.pasp>. The information contained on our website is not part of, and is not incorporated in, this or any other report we file with or furnish to the SEC.

In January 2004, we adopted a Code of Ethical Conduct. The full text of the Code of Ethical Conduct, which applies to all employees, officers and directors of the Company, including our Chief Executive Officer, Chief Financial Officer and Controller is available at web site, <http://www.programmersparadise.com/company/overview.pasp>. The Company intends to disclose any amendment to, or waiver from, a provision of the Code of Ethical Conduct that applies to our Chief Executive Officer, Chief Financial Officer or Controller on our investor relations web site.

## **Item 2 Properties**

The Company leases 25,250 square feet of space in Shrewsbury, New Jersey for its corporate headquarters and warehouse under a ten-year lease expiring in June 2007. Total annual rent expense for these premises is approximately \$280,000. Additionally, the Company leases two buildings with approximately 3,600 and 3,700 square feet of office and warehouse space in Mississauga, Canada, under leases, which expire July 31, 2007 and November 30, 2007, respectively. Total annual rent expense for these premises is approximately \$65,000. In addition, the Company leases approximately 1,200 square feet

of office space in Mount Laurel, New Jersey for a satellite sales office under a lease expiring in October 2005. Total annual rent expense for the satellite sales office amounts to approximately \$30,000.

In addition the Company entered into a lease in January 2005, for a satellite sales office in Hauppauge, New York. Total annual rent expense for this office is approximately \$70,000. This lease expires in April 2010. For a further discussion regarding lease obligations see Note 8 to the Consolidated Financial Statements, Part II, Item 8.

### **Item 3 Legal Proceedings**

There are no legal proceedings pending against the Company or any of its subsidiaries.

### **Item 4 Submission of Matters to a Vote of Security Holders**

There were no matters submitted during the fourth quarter of 2004 to a vote of security holders.

## **PART II**

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

Programmer's Paradise, Inc. Common Stock, par value \$0.01, began trading on The NASDAQ SmallCap Market on June 9, 2003 under the symbol "PROG". Our Common Stock previously traded on The NASDAQ National Market under the symbol "PROG". Following is the range of low and high closing prices for our Common Stock as reported on The NASDAQ SmallCap Market, or The NASDAQ National Market, as applicable, for the quarters indicated.

	High	Low
2003		
First Quarter	2.320	1.960
Second Quarter	2.949	2.160
Third Quarter	4.230	2.810
Fourth Quarter	7.240	3.980
2004		
First Quarter	8.060	6.130
Second Quarter	8.680	6.720
Third Quarter	10.990	7.740
Fourth Quarter	14.780	9.950

In 2004, we declared quarterly dividends totaling \$0.43 per share on our Common Stock. In 2003 we had paid cash dividends totaling \$0.40 per share on our Common Stock. The 2004 cash dividend distribution paid to shareholders should be treated as 56.4% as a return of capital and 43.6% as a taxable dividend. The dividends declared in 2003 are a return of capital. These dividends are reflected in the financial statements as a reduction in additional paid in capital. The closing sales price of our Common Stock on The NASDAQ SmallCap Market on March 7, 2005, was \$15.48 On March 7, 2005 3,954,335 shares of the Company's Common Stock were outstanding. On such date, there were approximately 46 holders of record.

During 2004, we issued 115,880 shares of our Common Stock from treasury stock to employees and former employees, pursuant to the exercise of incentive stock options granted to them prior to 2004 under the Company's stock option plans.

During 2003, we issued 54,250 shares of our Common Stock to employees and former employees, pursuant to the exercise of incentive stock options granted to them prior to 2003 under the Company's stock option plans.

## Item 6 Selected Financial Data

The following tables set forth, for the periods indicated, selected consolidated financial and other data for Programmer's Paradise, Inc. and its subsidiaries. You should read the selected consolidated financial and other data below in conjunction with our consolidated financial statements and the related notes and with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K.

**Year Ended December 31,**  
(In thousands, except per share data)

	2000	2001	2002	2003	2004
<b>Consolidated Statement of Operations Data (1):</b>					
Net sales	\$216,543	\$89,536	\$65,157	\$69,569	\$ 103,582
Cost of sales	194,964	80,656	56,540	60,609	91,243
Gross profit	21,579	8,880	8,617	8,960	12,339
Selling, general and administrative expenses	25,648	13,020	8,926	8,143	10,173
Amortization of goodwill	1,385	25	-	-	-
Impairment of goodwill	7,000	230	-	-	-
Cost of restructuring	-	362	-	-	-
Impairment of investment	590	-	-	-	-
Settlement of escrow	-	-	348	-	-
Loss on Sale of European subsidiaries	2,081	-	-	-	-
Income (loss) from operations	(15,125)	(4,757)	(657)	817	2,166
Other income, net	134	318	415	230	112
Income (loss) before income taxes	(14,991)	(4,439)	(242)	1,047	2,278
Income tax provision (benefit)	2,483	83	(270)	81	(4,044)
Net income (loss)	<u>\$(17,474)</u>	<u>\$(4,522)</u>	<u>\$28</u>	<u>\$966</u>	<u>\$6,322</u>
Net income (loss) per share:					
Basic	<u>\$(3.51)</u>	<u>\$(0.91)</u>	<u>\$0.01</u>	<u>\$0.26</u>	<u>\$1.65</u>
Diluted	<u>\$(3.51)</u>	<u>\$(0.91)</u>	<u>\$0.01</u>	<u>\$0.25</u>	<u>\$1.51</u>

Weighted average common  
shares outstanding:

Basic	4,983	4,987	4,459	3,724	3,828
Diluted	4,983	4,987	4,480	3,900	4,180

	December 31,				
	2000	2001	2002	2003	2004
<b>Balance Sheet Data(1):</b>					
Cash and cash equivalents	\$2,091	\$11,425	\$6,072	\$5,878	\$4,888

Marketable securities	-	-	5,110	5,033	6,595
Working capital	17,326	13,367	11,167	10,703	12,756
Total assets	33,855	24,057	19,468	20,489	32,914
Notes payable - current	-	-	-	-	-
Notes payable - long term	-	-	-	-	-
Total stockholders' equity	\$18,906	\$14,058	\$11,696	\$11,195	\$16,495

- (1) Comparability of the Consolidated Statement of Operations and Balance Sheet Data is affected by the sale of our European Operations on January 9, 2001.

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

*The following management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto.*

### Overview

Programmer's Paradise, Inc. is a recognized marketer of software in the United States and Canada targeting software development and information technology professionals within enterprise organizations. The Company 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 from a broad range of publishers and manufacturers. We market these products through our well-known catalogs, direct mail programs, advertisements in trade magazines, as well as through Internet and e-mail promotions. Through our wholly owned subsidiary, Lifeboat Distribution Inc., we distribute products to dealers and resellers in the United States and Canada.

### Forward-looking Statements

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 generally.

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 statements concerning future sales, future gross profit margin and future selling and administrative expenses 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.

## Financial Overview

We reported a net income of \$6.3 million for the year 2004, as compared to a net income of \$1.0 million in 2003. This improvement primarily resulted from an increase in gross profit of \$3.4 million offset by a \$2.0 million increase in Selling, General and Administrative (SG&A) expenses in 2004 as compared to 2003. Furthermore the Company recorded a tax benefit of \$4.0 million in 2004 as a result of the reversal of the valuation allowance. Gross margin as a percentage of net sales decreased from 12.9% in 2003 to 11.9% in 2004. Net sales increased \$34.0 million or 49% in 2004 as compared to 2003.

The Company's sales, gross profit 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 years indicated the percentage of net sales represented by selected items reflected in the Company's Consolidated Statements of Operations. The year-to-year comparison of financial results is not necessarily indicative of future results:

	Years ended December 31,		
	2002	2003	2004
Net sales	100.0%	100.0%	100.0%
Cost of sales	86.8%	87.1%	88.1%
Gross profit	13.2%	12.9%	11.9%
Selling, general and administrative expenses	13.7%	11.7%	9.8%
Settlement of escrow	0.5%	-	-

Income (loss) from operations	(1.0)%	1.2%	2.1%
Other income, net	0.6%	0.3%	0.1%
Income (loss) before income taxes	(0.4)%	1.5%	2.2%
Income tax provision (benefit)	(0.4)%	0.1%	(3.9)%
Net Income (loss)	0.0%	1.4%	6.1%

### **Year ended December 31, 2004 Compared to Year Ended December 31, 2003**

#### **Net Sales**

Net sales in 2004 increased by 49% or \$34.0 million to \$103.6 million compared to \$69.6 million in 2003. On a quarterly basis, net sales have increased from \$20.7 million in the first quarter of 2004 to \$31.0 million in the fourth quarter of 2004 and from \$15.2 million in the first quarter of 2003 to \$20.0 million in the fourth quarter of 2003. We attribute this growth in net sales on a yearly and quarterly basis primarily to the improved productivity and expansion of our account executive team and a more favorable IT spending environment in 2004.

On a forward-looking basis, the overall market demand for the software we sell continues to be volatile.

#### **Gross Profit**

Gross profit in absolute dollars for the year ended December 31, 2004 was \$12.3 million as compared to \$9.0 million in 2003. Gross profit as a percentage of net sales decreased to 11.9% in 2004, compared to 12.9% in 2003. The increase in gross profit dollars and the decrease in gross profit margin as a percentage of net sales reflect a shift in the product mix of sales. Gross margin as a percentage of net sales has consistently decreased in the last 2 years.

On a forward-looking basis, gross profit margin in future periods may be less than the 11.9% achieved in 2004. We foresee possible pressure on gross 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 margins below those realized in 2004.

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

SG&A expenses for 2004 were \$10.1 million as compared to \$8.1 million for 2003, an increase of \$2.0 million or 25.0%. The primary drivers in selling, general and administrative expenses were payroll and employee related costs. Payroll costs increased by \$0.5 million as a result of the expansion of the sales account executive team. Employee-related costs (which includes items such as profit sharing, incentive awards and insurance) increased \$0.9 million. Commission costs increased \$0.4 million due to the increase in sales. Selling and marketing expenses increased by \$0.2 million of which \$0.1 million was for credit card processing fees due to higher level of sales. The remaining \$0.1 million was mainly related to marketing related activities.

In light of current business conditions, we will continue to invest in our sales force. We will open a satellite sales office in Hauppauge, New York. These factors, combined with increased legal requirements including the Sarbanes-Oxley Act of 2002, will most likely result in higher SG&A expenses in 2005.

## **Income Taxes**

For the year ended December 31, 2004, the Company recorded a benefit for income taxes of approximately \$4.0 million which primarily consists of a deferred income tax benefit of \$4.1 offset by the current provision of \$0.1 million.

As discussed in the Company's previously filed Form 10-Q for the period ended September 30, 2004, the Company had net deferred tax assets totaling approximately \$5.7 million, all of which were offset by a valuation allowance. The Company also noted that its assessment of the requirement for the valuation allowance could change in the future based upon its level of pre-tax income.

Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109), requires the Company to record a valuation allowance when it is "more likely than not that some portion or all of the deferred tax assets will not be realized." Since December 31, 2000, the Company has maintained a 100% valuation allowance equal to the net deferred tax assets. 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 has reduced its valuation allowance which was provided for in prior years. The Company believes that uncertainty still exists regarding the realizability 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.

As a result, in accordance with SFAS No. 109, the Company recorded a net deferred tax benefit (including the net change in valuation allowance) in the amount of \$4.1 million.

## **Year ended December 31, 2003 Compared to Year Ended December 31, 2002**

### **Net Sales**

Net sales in 2003 increased by 7% or \$4.4 million to \$69.6 million compared to \$65.2 million in 2002. On a quarterly basis, net sales have increased from \$15.2 million in the first quarter of 2003 to \$20.0 million in the fourth quarter of 2003. We attribute this growth in net sales on a yearly and quarterly basis primarily to the improved productivity of our account executive team and a more favorable IT spending environment in 2003.

### **Gross Profit**

Gross profit in absolute dollars for the year ended December 31, 2003 was \$9.0 million as compared to \$8.6 million in 2002. Gross profit as a percentage of net sales decreased to 12.9% in 2003, compared to 13.2% in 2002. The increase in gross profit dollars and the decrease in gross profit margin as a percentage of net sales reflect a shift in the product mix of sales.

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

SG&A expenses for 2003 were \$8.1 million as compared to \$8.9 million for 2002, a decrease of \$0.8 million or 9%. The primary drivers in selling, general and administrative expenses were consultant fees, payroll costs and cost containment initiatives and improved cost control policies and procedures.

Consultant fees decreased \$0.4 million and were mainly information technology related fees that will no longer be required due to the upgrade of our staff in the IT department. Payroll costs decreased \$0.2 million. This mainly resulted from a decrease in support staff, as we continued to invest in our sales force in 2003. Employee-related costs (which includes items such as profit sharing, incentive awards and insurance) increased \$0.1 million. Remaining costs decreased by \$0.3 million, mainly the result of our cost containment initiatives and improved cost control policies and procedures.

### **Other income, net**

The main driver in other income was the gain on sale of investments in 2002. As a result of selling available for sales US government securities, we recorded a gain on sale of investments of \$0.2 million in 2002. This did not occur in 2003.

### **Income Taxes**

For the year ended December 31, 2003, the Company recorded an expense for income taxes of approximately \$81,000, which consists of a tax liability for Canadian taxes. The loss carry forwards offset the provision for income taxes for our U.S. operations. As of December 31, 2003, the Company had recorded a U.S. deferred tax asset of approximately \$6.2 million reflecting, in part, a benefit of \$3.0 million in federal and state tax loss carry forwards, which will expire in varying amounts between 2004 and 2023. As a result of the current uncertainty of realizing the benefits of the tax loss carry forward, valuation allowances equal to the tax benefits for the U.S. deferred taxes have been established.

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 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's ability to utilize certain net operating loss carry forwards is restricted to approximately \$1.5 million per year cumulatively, as a result of an ownership change pursuant to Section 382 of the Internal Revenue Code.

### **Recent Accounting Pronouncements**

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46), which addresses consolidation by business enterprises of variable interest entities ("VIEs"). FIN No.46 is applicable immediately for VIEs created after January 31, 2003 and are effective for reporting periods ending after December 15, 2003, for VIEs created prior to February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, public companies that have interests in VIE's that are commonly referred to as special purpose entities are required to apply the provisions of FIN 46R for periods ending after December 15, 2003. A public company that does not have any interests in special purpose entities but does have a variable interest in a VIE created before February 1, 2003, must apply the provisions of FIN 46R by the end of the first interim or annual reporting period ending after March 14, 2004. The Company adopted FIN 46 and FIN 46R during the quarter ended March 31, 2004. The adoption of FIN 46 had no impact on the financial condition or results of operations since the Company does not have investments in VIE's.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The compensation cost will be measured based on the fair value of the equity or liability instruments issued. The

Statement is effective as of the beginning of the first interim or annual period beginning after June 15, 2005. We have disclosed the pro forma impact of adopting SFAS No. 123(R) on net income and earnings per share for the year ended December 31, 2004 and 2003 in Note 1, which includes all share-based payment transactions to date. We do not yet know the impact that any future share-based payment transactions will have on our financial position or results of operations.

### **Liquidity and Capital Resources**

In 2004, our cash and cash equivalents decreased by \$1.0 million to \$4.9 million at December 31, 2004, from \$5.9 million at December 31, 2003. Net cash provided by operating activities amounted to \$1.9 million; net cash used in investing activities amounted to \$1.7 million, and cash used in financing activities amounted to \$1.2 million. The positive effect of foreign exchange rate on cash amounted to \$0.1 million.

Net cash provided by operating activities in 2004 was \$1.9 million. In 2004, cash was mainly provided by \$2.5 million from income from operations net of non-cash charges, and a \$7.1 million increase in accounts payable and accrued expenses, offset by a \$7.0 million increase in accounts receivable and a \$0.7 million increase in other operating assets. The increase in accounts receivable relates primarily to our increased revenue. The increase in accounts payable is primarily due to our increased net sales and our normal cycle of payments.

Cash used in investing activities in 2004 amounted to \$1.7 million. As a result of the current low interest rates on our short-term savings accounts in 2004 we decided to invest in highly rated and highly liquid available-for-sale securities. The company purchased \$7.1 million of these securities during 2004 and redeemed \$5.5 million during 2004. These securities are highly rated and highly liquid. These securities are classified as available-for-sale securities in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities", and as a result unrealized gains and losses are reported as part of other comprehensive income (loss).

Net cash used in financing activities in 2004 of \$1.2 million consisted of \$1.6 million dividends paid on our Common Stock and \$0.4 million from proceeds from the exercise of stock options.

On October 9, 2002, the Company's Board of Directors authorized the purchase of 500,000 shares of our Common Stock. On September 16, 2002, the Company's Board of Directors authorized the purchase of 500,000 shares of our Common Stock. These two purchase approvals are in addition to approval of 490,000 shares in September 2002 and 521,013 shares in October 1999 the company was authorized to buy back 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 December 31, 2004, we owned 1,418,090 shares of Common Stock at an average cost of \$2.91 per share. As of December 31, 2003, we owned 1,533,970 shares of Common Stock at an average cost of \$2.93 per share.

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 repurchase program and dividends, if any, 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.

The Company believes that the cash flows from operations and funds held in cash and cash equivalents will be sufficient to fund the Company's 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**  
(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)	\$1,693	\$564	\$1,010	119	-
Unconditional Purchase Obligations	-	-	-	-	-
Other Long term Obligations	-	-	-	-	-
<b>Total Contractual Obligations</b>	<b>\$1,693</b>	<b>\$564</b>	<b>\$1,010</b>	<b>\$119</b>	<b>-</b>

(1) Operating leases primarily relates to the lease of the space used for our operations in Shrewsbury, New Jersey, Mississauga Canada, Mount Laurel, New Jersey and Hauppauge, New York.

The Company entered into an employment agreement with its chief executive officer which expires January 15, 2006. The agreement provides for a base salary and a bonus, if certain targets are met.

In the event that Mr. Willett's employment is terminated without cause or by the rendering of a non-renewal notification, he is entitled to receive severance payments equal to twelve months salary and immediate vesting of all outstanding stock awards. Additionally, in the event that a change of control of the Company occurs (as described in the employment agreement), Mr. Willett's outstanding stock awards become immediately vested and he is entitled to the pro-rata performance bonus based upon stock price at the date of such change in control.

The Company has entered into letter agreements with Mr. Nynens and Mr. Legrottaglie. Mr. Nynens is entitled to severance payments for nine months at the then applicable annual base salary if the Company terminates his employment for any reason other than for cause. Mr. Legrottaglie is entitled to severance payments for six months at the then applicable annual base salary if the Company terminates his employment for any reason other than for cause.

The Company is not committed by lines of credit, standby letters of credit, has no standby repurchase obligations or other commercial commitments.

**Foreign Exchange**

The Company's Canadian business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. We are subject to fluctuations in the Canadian Dollar-to-U.S. Dollar exchange rate.

**Off- Balance Sheet Arrangements**

As of December 31, 2004, we did not have any significant off-balance sheet arrangements, as defined in Item 303 (a)(4)(ii) of SEC 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.

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. 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. However, because of the current and expected future operating results of the Company, we have concluded that a certain portion of the valuation allowance against the deferred tax assets is no longer necessary and have accordingly reduced the allowance against the provision for taxes in the fiscal year ended December 31, 2004, as further discussed in Note 5.

## **Item 7A Quantitative and Qualitative Disclosures about Market Risk**

In addition to its activities in the United States, 11% of the Company's 2004 sales were generated 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 \$6.6 million investments in marketable securities are only in highly rated and highly liquid U.S. government securities and corporate bonds. 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 8 Financial Statements and Supplementary Data**

See Index to Consolidated Financial Statements at Item 15(a).

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

None.

### **Item 9A 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 December 31, 2004. This evaluation was carried out under the supervision and with the participation of our management, including our Company's 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 the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2004. 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 December 31, 2004 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 December 31, 2004 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.

### **Item 9B Other Information**

None.

## **PART III**

### **Item 10 Directors and Executive Officers of the Registrant**

This information required hereunder, with the exception of the information relating to the executive officers of the Registrant that is presented in Part I under the heading "Executive Officers of the Company," and the information relating to the Company's Code of Ethical Conduct that is presented in Part I under the heading "Available Information," is incorporated by reference herein from our Definitive Proxy Statement for the 2004 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A not later than April 30, 2005 (the "Definitive Proxy Statement") under the sections captioned "Election of Directors," and "Compliance with Section 16 (a) of the Exchange Act".

## **Item 11 Executive Compensation**

The information required hereunder is incorporated by reference herein from the Definitive Proxy Statement under the section captioned "Executive Compensation".

## **Item 12 Security Ownership of Certain Beneficial Owners and Management**

The information required hereunder is incorporated by reference herein from the Definitive Proxy Statement under the section captioned "Security Ownership of Certain Beneficial Owners and Management".

## **Item 13 Certain Relationships and Related Transactions**

The information required hereunder is incorporated by reference herein from the Definitive Proxy Statement under the section captioned "Executive Compensation" and "Certain Transactions".

## **Item 14 Principal Accounting Fees and Services**

The information required hereunder is incorporated by reference herein from the Definitive Proxy Statement under the section captioned "Appointment of Independent Registered Public Accounting Firm".

## **PART IV**

### **Item 15 Exhibits, Financial Statement Schedules**

(a) The following documents are filed as part of this Report:

1. **Consolidated Financial Statements** (See Index to Consolidated Financial Statements on page F-1 of this report);
2. **Financial Statement Schedule:**  
Schedule II Valuation and Qualifying Accounts

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

3. **Exhibits Required by Regulation S-K, Item 601:**

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	Agreement for the Sale and Purchase of Shares, dated as of January 9, 2001 between the Company and PC-Ware Information Technologies, AG.+
3.1	Form of Amended and Restated Certificate of Incorporation of the Company.*
3.2	Form of Amended and Restated By-Laws of the Company.*
4.1	Specimen of Common Stock Certificate.*

- 10.8 Agreement dated as of December 29, 1994, between Lifeboat Publishing and Software Garden, Inc.; License for Trademark "Dan Bricklin", dated as of December 29, 1994, between the Company and Daniel Bricklin; First Amendment to Software License Agreement and Trademark License Agreement dated March 30, 1995.\*
- 10.17 1986 Stock Option Plan and Form of Employee Stock Option Agreement.\*
- 10.18 1995 Stock Plan, as amended. \*\*\*
- 10.19 1995 Non-Employee Director Plan, as amended. \*\*\*
- 10.20 Form of Officer and Director Indemnification Agreement.\*
- 10.38 Employment Agreement dated July 15, 2002 between William Willett and the the Company \*\*\*\*\*
- 10.39 First Amendment, dated as of December 16, 2003, to Employment Agreement between William Willett and the Company \*\*\*\*\*
- 10.42 Lease dated as of May 14, 1997 between Robert C. Baker, et al as Landlord and the Company \*\*
- 21.1 Subsidiaries of the Registrant ++
- 23.1 Consent of Amper, Politziner & Mattia P.C.
- 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 Rule 13a-14(b) of the Securities Exchange Act of 1934 and 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 Rule 13a-14(b) of the Securities Exchange Act of 1934 and 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.

\* Incorporated by reference to exhibits of the same number filed with the Registrant's Registration Statement on Form S-1 or amendments thereto (File No. 33-92810).

\*\* Incorporated by reference to Exhibit 10.42 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998 filed on March 31, 1999.

\*\*\* Incorporated by reference to Exhibit A and Exhibit B, respectively, to the Registrant's Definitive Annual Meeting Proxy filed on April 30, 1998.

\*\*\*\*\* Incorporated by reference to exhibits of the same number filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 filed on March 29, 2004.

+ Incorporated by reference to Annex I to the Registrant's Definitive Special Meeting Proxy Statement filed on December 1, 2000.

++ Incorporated by reference to Exhibit 21.1 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 20, 2003

- (b) The exhibits required by Item 601 of Regulation S-K are reflected above in Section (a) 3. of this Item.
- (c) The financial statement schedule is included as reflected in Section (a) 2. of this Item.

## 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 Shrewsbury, New Jersey, on March 14, 2005.

PROGRAMMER'S PARADISE, INC.

By: /s/ William H. Willett

William H. Willett, President  
Chief Executive Officer and  
Chairman of the Board of Directors

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 in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ William H. Willett</u> William H. Willett	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	March 14, 2005
<u>/s/ Simon F. Nynens</u> Simon F. Nynens	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2005
<u>/s/ Mark T. Boyer</u> Mark. T. Boyer	Director	March 14, 2005
<u>/s/ F. Duffield Meyercord</u> F. Duffield Meyercord	Director	March 14, 2005
<u>/s/ Edwin H. Morgens</u> Edwin H. Morgens	Director	March 14, 2005
<u>/s/ Allan D. Weingarten</u> Director Allan D. Weingarten		March 14, 2005

## **Items 8 and 15(a)**

### **Programmer's Paradise, Inc. and Subsidiaries**

#### **Index to Consolidated Financial Statements and Schedule**

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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Programmer's Paradise, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Programmer's Paradise, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Programmer's Paradise, Inc. and Subsidiaries as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

In connection with our audits of the consolidated financial statements referred to above, we audited Schedule II – Valuation and Qualifying Accounts. In our opinion, this financial schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information stated therein.

February 16, 2005  
Edison, New Jersey

/s/ Amper, Politziner & Mattia P.C.

Programmer's Paradise, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(Dollars in thousands, except share amounts)

	<b>December 31</b>	
	<b>2003</b>	<b>2004</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$5,878	\$4,888
Marketable securities	5,033	6,595
Accounts receivable, net of allowances of \$622 and \$755 in 2003 and 2004, respectively	7,634	14,173
Inventory, net of allowances of \$132 and \$43 in 2003 and 2004, respectively	1,119	1,423
Prepaid expenses and other current assets	333	673
Deferred income taxes, current	-	1,423
Total current assets	19,997	29,175
Equipment and leasehold improvements, net	292	303
Other assets	200	581
Deferred income taxes, net of current	-	2,855
	<u>\$20,489</u>	<u>\$32,914</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$8,919	\$15,994
Dividend payable	375	425
Total current liabilities	9,294	16,419
Commitments and Contingencies		
Stockholders' equity:		
Common Stock \$.01 par value: Authorized, 10,000,000 shares, issued 5,284,500 in 2003 and 2004, respectively	53	53
Additional paid-in capital	34,099	32,642
Treasury stock, at cost, 1,533,970 and 1,418,090 shares in 2003 and 2004, respectively	(4,490)	(4,130)
Retained earnings (deficit)	(18,545)	(12,223)
Accumulated other comprehensive gain	78	153
Total stockholders' equity	11,195	16,495
	<u>\$20,489</u>	<u>\$32,914</u>

*The accompanying notes are an integral part of the consolidated financial statements.*

Programmer's Paradise, Inc. and Subsidiaries  
Consolidated Statements of Operations  
(Dollars in thousands, except per share amounts)

	Year ended December 31		
	2002	2003	2004
Net sales	\$65,157	\$69,569	\$103,582
Cost of sales	56,540	60,609	91,243
Gross profit	8,617	8,960	12,339
Selling, general and administrative expenses	8,926	8,143	10,173
Settlement of escrow	348	-	-
Income (loss) from operations	(657)	817	2,166
Other income (expense):			
Interest income	241	133	156
Gain on sale of investments	205	-	-
Foreign currency transaction gain (loss)	(31)	97	(44)
Income (loss) before provision (benefit) for income taxes	(242)	1,047	2,278
Provision (benefit) for income taxes	(270)	81	(4,044)
Net income	\$ 28	\$966	\$6,322
Basic income per common share	\$ 0.01	\$ 0.26	\$ 1.65
Diluted income per common share	\$ 0.01	\$ 0.25	\$ 1.51
Weighted average common shares outstanding-Basic	4,459	3,724	3,828
Weighted average common shares outstanding-Diluted	4,480	3,900	4,180

*The accompanying notes are an integral part of the consolidated financial statements.*

Programmer's Paradise, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)  
(Dollars in thousands, except share amounts)

	<b>Common Stock</b>		<b>Additional Paid-In</b>	<b>Treasury</b>	<b>Retained Earnings</b>	<b>Accumulated other comprehensive</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Stock</b>	<b>(Deficit)</b>	<b>Income (loss)</b>	<b>Total</b>
Balance at January 1, 2002	5,307,938	\$53	\$35,483	\$(1,473)	\$(19,539)	\$(466)	\$14,058
Net income					28		28
Other comprehensive loss:							
Reclassification adjustment for gain realized on sale of available-for-sale securities						(78)	(78)
Unrealized gain on available-for- sale securities						114	114
Translation adjustment						285	285
Comprehensive Income							349
Purchase of 1,126,169 treasury stock shares				(2,711)			(2,711)
Other	(77,688)	(1)	1				
Balance at December 31, 2002	5,230,250	\$52	\$35,484	\$(4,184)	\$(19,511)	\$(145)	\$11,696
Net income					966		966
Other comprehensive loss:							
Translation adjustment						223	223
Comprehensive Income							1,189
Dividend paid			(1,113)				(1,113)
Dividend declared payable			(375)				(375)
Purchase of 172,394 treasury stock shares				(377)			(377)
Exercise of stock options	54,250	1	103	71			175
Balance at December 31, 2003	5,284,500	\$53	\$34,099	\$(4,490)	\$(18,545)	\$78	\$11,195
Net income					6,322		6,322
Other comprehensive loss:							
Translation adjustment						97	97
Unrealized loss on available- for- sale securities						(22)	(22)
Comprehensive Income							6,397
Dividend paid			(1,225)				(1,225)
Dividend declared payable			(425)				(425)
Exercise of stock options				360			360
Tax benefit from exercises of non-qualified stock options			193				193
Balance at December 31, 2004	5,284,500	\$53	\$32,642	\$(4,130)	\$(12,223)	\$153	\$16,495

*The accompanying notes are an integral part of the consolidated financial statements.*

Programmer's Paradise, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(Dollars in thousands, except share amounts)

	Year ended December 31		
	2002	2003	2004
<b>Cash flows from operating activities</b>			
Net Income	\$ 28	\$ 966	\$ 6,322
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation expense	364	291	176
Amortization expense	30	22	15
Gain on sale of investments	205	-	-
Provisions for doubtful accounts receivable	(63)	(106)	133
Benefit for deferred income taxes	-	-	(4,128)
Changes in operating assets and liabilities, net of assets held for sale:			
Accounts receivable	2,170	(1,336)	(7,045)
Inventory	(465)	32	(304)
Prepaid expenses and other current assets	207	(69)	(340)
Accounts payable and accrued expenses	(2,227)	1,147	7,118
Net change in other operating assets and liabilities	(41)	(4)	(22)
Net cash provided by operating activities	208	943	1,925
<b>Cash flows from investing activities</b>			
Purchase of equipment, leasehold improvements and other	(191)	(122)	(187)
Change in cash held in escrow	2,335	-	-
Purchases of available-for-sale securities	(10,219)	(5,473)	(7,084)
Sales of available-for-sale securities	4,904	-	-
Redemptions of available-for-sale securities	-	5,550	5,500
Net cash provided by (used in) investing activities	(3,171)	(45)	(1,771)
<b>Cash flows from financing activities</b>			
Purchase of treasury stock	(2,711)	(377)	-
Proceeds from stock option exercise	-	71	359
Dividends paid	-	(1,113)	(1,600)
Net proceeds from issuance of Common Stock	-	104	-
Net cash used in financing activities	(2,711)	(1,315)	(1,241)
Effect of foreign exchange rate on cash	321	223	97
Net (decrease) in cash and cash equivalents	(5,353)	(194)	(990)
Cash and cash equivalents at beginning of year	11,425	6,072	5,878
Cash and cash equivalents at end of year	\$ 6,072	\$ 5,878	\$ 4,888
<b>Supplementary disclosure of cash flow information:</b>			
Income taxes paid	\$ -	\$ 73	\$ 38
Interest paid	\$ -	\$ 26	\$ 19

*The accompanying notes are an integral part of the consolidated financial statements.*

Programmer's Paradise, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Dollars in thousands, except per share amounts)

**Note 1. Description of Business**

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 from a broad range of publishers and manufacturers. We market our products through our well-known catalogs, direct mail programs, 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.

**Note 2. Summary of Significant Accounting Policies**

**Principles of Consolidation and Operations**

The consolidated financial statements include the accounts of Programmer's Paradise, Inc. and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make extensive use of certain estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

**Net Income Per Common Share**

The Company calculates earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share". Basic earnings or loss per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings or loss per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding, adjusted for potentially dilutive securities. As of December 31, 2004 and 2003, there were 0 and 174,500, respectively, equivalent number of common shares assuming the related securities that were outstanding for each of the periods had been converted, but not included in the calculation of diluted income (loss) per share because such shares are antidilutive.

**Cash Equivalents**

The Company considers all highly liquid short-term investments with original maturities of 90 days or less to be cash equivalents.

## Notes to Consolidated Financial Statements (continued)

(Dollars in thousands, except per share amounts)

### **Accounts Receivable**

Accounts receivable principally represents amounts collectible from our customers. The Company performs ongoing credit evaluations of its customers but generally does not require collateral to support any outstanding obligation. Allowances for potential uncollectible amounts are estimated and deducted from total accounts receivable.

### **Allowance for Doubtful Accounts Receivable**

We provide allowances for doubtful accounts related to accounts receivable for estimated losses resulting from the inability of our customers to make required payments. We take into consideration the overall quality and aging of the receivable portfolio along with specifically identified customer risks. If actual customer payment performance were to deteriorate to an extent not expected, additional allowances may be required.

### **Foreign Currency Translation**

Assets and liabilities of the foreign subsidiary in Canada 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. Cumulative translation adjustments have been classified within other comprehensive income (loss), which is a separate component of stockholders' equity in accordance with FASB Statement No. 130, "Reporting Comprehensive Income".

### **Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentrations in credit risk consist of cash, cash equivalents, and marketable securities. The Company's \$6.6 million investments in marketable securities are only in highly rated and highly liquid U.S. government securities and corporate bonds.

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.

The Company's cash and cash equivalents, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

(Dollars in thousands, except per share amounts)

### **Investments in Securities**

The Company accounts for investments in securities pursuant to the SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under this statement, the Company's securities with a readily determinable fair value have been classified as available for sale and are carried at fair value with an offsetting adjustment to Stockholder's Equity. Net unrealized gains and losses on marketable securities are credited or charged to accumulated other comprehensive income.

### **Financial Instruments**

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value as of December 31, 2004, because of the relative short maturity of these instruments.

### **Inventory**

Inventory, consisting primarily of finished products held for resale, is stated at the lower of cost (weighted average) or market.

### **Equipment and Leasehold Improvements**

Equipment and leasehold improvements are stated at cost. Depreciation and amortization are calculated using the straight-line method over three to five years. Leasehold improvements are amortized over the estimated useful lives of the assets or the related lease terms, whichever is shorter.

### **Comprehensive Income (Loss)**

Comprehensive income (loss) consists of net income or loss for the period, the impact of unrealized foreign currency translation adjustments and unrealized gains or losses on investments.

### **Revenue Recognition**

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 Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition" and Emerging Issues Task Force (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.

## **Programmer's Paradise, Inc. and Subsidiaries** **Notes to Consolidated Financial Statements (continued)**

(Dollars in thousands, except per share amounts)

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. Vendor rebates and price protection are recorded when earned as a reduction to cost of sales or merchandise inventory, as applicable. Cooperative reimbursements from vendors, which are earned and available, are recorded in the period the related advertising expenditure is incurred. Cooperative reimbursements are recorded as net sales in accordance with EITF 02-16.

### Stock-Based Compensation

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation", which establishes a fair value based method of accounting for stock-based compensation plans, the Company has elected to follow Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" for recognizing stock-based compensation expense for financial statement purposes. For companies that choose to continue applying the intrinsic value method, SFAS No. 123 mandates certain pro forma disclosures as if the fair value method had been utilized. The Company accounts for stock based compensation to consultants in accordance with EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and SFAS No. 123.

In December 2003, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123", which provides optional transition guidance for those companies electing to voluntarily adopt the accounting provisions of SFAS No. 123. In addition, SFAS No. 148 mandates certain new disclosures that are incremental to those required by SFAS No. 123. The Company continued to account for stock-based compensation in accordance with APB No.25.

The following table illustrates the effect on income (loss) attributable to common stockholders and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	<b>Year ended December 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net income as reported	\$28	\$966	\$6,322
Deduct: Total stock-based employee compensation expense determined under fair value based method	\$(463)	\$(50)	\$(1,494)
Net income (loss) pro forma	\$(435)	\$916	\$4,828
Basic net income per share, as reported	\$0.01	\$0.26	\$1.65
Diluted net income per share, as reported	\$0.01	\$0.25	\$1.51
Basic net income (loss) per share, pro forma	\$(0.10)	\$0.25	\$1.26
Diluted net income (loss) per share, pro forma	\$(0.10)	\$0.23	\$1.16

For the years ended December 31, 2002, 2003 and 2004 there was no compensation expense recorded under APB No. 25.

## Notes to Consolidated Financial Statements (continued)

(Dollars in thousands, except per share amounts)

Under SFAS No. 123 the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year ended December 31		
	2002	2003	2004
Expected life (in years)	8.3	4.2	4.0
Risk-free interest rate	3.78%	3.38%	3.66%
Volatility	61%	53%	59%
Dividend yield	0%	10%	4%

### Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. This method also requires a valuation allowance against net deferred tax asset if, based on the weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. However, because of the current and expected future results of the Company, we have concluded that a certain portion of the valuation allowance against the deferred tax assets is no longer necessary and have accordingly reduced the allowance against the provision for taxes in the fiscal year ended December 31, 2004, as further discussed in Note 5.

### Advertising Costs

Advertising costs are charged to expense in the period incurred. Advertising costs for 2002, 2003, and 2004 amounted to approximately \$2,740, \$2,167 and \$2,258, respectively.

### Impact of Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46), which addresses consolidation by business enterprises of variable interest entities ("VIEs"). FIN No.46 is applicable immediately for VIEs created after January 31, 2003 and are effective for reporting periods ending after December 15, 2003, for VIEs created prior to February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, public companies that have interests in VIE's that are commonly referred to as special purpose entities are required to apply the provisions of FIN 46R for periods ending after December 15, 2003. A public company that does not have any interests in special purpose entities but does have a variable interest in a VIE created before February 1, 2003, must apply the provisions of FIN 46R by the end of the first interim or annual reporting period ending after March 14, 2004. The Company adopted FIN 46 and FIN 46R during the quarter ended March 31, 2004. The adoption of FIN

(Dollars in thousands, except per share amounts)

46 had no impact on the financial condition or results of operations since the Company does not have investments in VIE's.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS 123(R) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The compensation cost will be measured based on the fair value of the equity or liability instruments issued. The Statement is effective as of the beginning of the first interim or annual period beginning after June 15, 2005. We have disclosed the pro forma impact of adopting SFAS No. 123(R) on net income and earnings per share for the year ended December 31, 2004 and 2003 in Note 1, which includes all share-based payment transactions to date. We do not yet know the impact that any future share-based payment transactions will have on our financial position or results of operations.

### Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

### 3. Marketable securities

Investments in available-for-sale securities at December 31, 2004 were:

	Cost	Market value	Unrealized Gain (loss)
U.S. Government Securities	\$ 4,608	\$ 4,604	\$ (4)
Corporate Bonds	<u>\$ 2,009</u>	<u>\$ 1,991</u>	<u>\$ (18)</u>
Total Marketable securities	<u>\$ 6,617</u>	<u>\$ 6,595</u>	<u>\$ (22)</u>

The cost and market value of our investments at December 31, 2004 by contractual maturity were :

	Cost	Estimated Fair Value
Due in one year or less	\$5,614	\$5,606
Due in greater than one year	<u>1,003</u>	<u>989</u>
Total investments	<u>\$6,617</u>	<u>\$6,595</u>

Investments in available-for-sale securities at December 31, 2003 were:

	Cost	Market value	Unrealized Gain (loss)
U.S. Government Securities	\$ 3,024	\$ 3,033	\$ 9
Corporate Bonds	<u>\$ 2,001</u>	<u>\$ 2,000</u>	<u>\$ (1)</u>
Total Marketable securities	<u>\$ 5,025</u>	<u>\$ 5,033</u>	<u>\$ 8</u>

### Programmer's Paradise, Inc. and Subsidiaries

#### Notes to Consolidated Financial Statements (continued)

in thousands, except per share amounts)

(Dollars

The cost and market value of our investments in U.S. Government securities at December 31, 2003 by contractual maturity were:

	Cost	Estimated Fair Value
Due in one year or less	\$3,024	\$3,033
Due in greater than one year	<u>2,001</u>	<u>2,000</u>
Total investments	<u>\$5,025</u>	<u>\$5,033</u>

Estimated fair values of marketable securities are based on quoted market prices.

#### 4. Balance Sheet Detail

Equipment and leasehold improvements consists of the following as of December 31:

	2003	2004
Equipment	\$ 2,023	\$ 2,210
Leasehold improvements	291	293
	2,314	2,503
Less accumulated depreciation and amortization	(2,022)	(2,200)
	<u>\$ 292</u>	<u>\$ 303</u>

Accounts payable and accrued expenses consist of the following as of December 31:

	2003	2004
Trade accounts payable	\$ 8,014	\$ 15,056
Other accrued expenses	905	938
	<u>\$ 8,919</u>	<u>\$ 15,994</u>

Programmer's Paradise, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Dollars in thousands, except per share amounts)

#### 5. Income Taxes

Deferred tax attributes resulting from differences between financial and accounting amounts and tax basis of assets and liabilities at December 31, 2003 and 2004 are as follows:

	<b>December 31</b>	
	<b>2003</b>	<b>2004</b>
<b>Current assets and liabilities</b>		
Accruals and reserves	\$ 291	\$ 326
Goodwill impairment	271	271
Net operating loss carry forwards	1,404	914
Deferred tax assets	\$ 1,966	\$ 1,511
Valuation allowance	(1,966)	(88)
<b>Net current deferred tax assets</b>	<b>\$ 0</b>	<b>\$ 1,423</b>
<b>Non-current assets and liabilities</b>		
Accruals and reserves	\$ 509	\$ 216
Depreciation	259	84
Goodwill impairment	1,802	1,527
Net operating loss carry forwards	1,669	1,764
Business credits	16	35
Deferred tax assets	\$ 4,255	\$ 3,626
Valuation allowance	(4,255)	(771)
<b>Net non-current deferred tax assets</b>	<b>\$ 0</b>	<b>\$ 2,855</b>

The net change in the valuation allowance for the year ended December 31, 2003 and 2004 was (\$323) and (\$5,362), respectively.

The provision (benefit) for income taxes is as follows:

	<b>Year ended December 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Current:</b>			
Federal	\$ (322)	\$ -	\$ 19
State	25	-	72
Canada	27	81	(7)
	(270)	81	84
<b>Deferred:</b>			
Federal	-	-	\$ (3,676)
State	-	-	(452)
Canada	-	-	-
	-	-	(4,128)
	<b>\$ (270)</b>	<b>\$ 81</b>	<b>\$ (4,044)</b>

Programmer's Paradise, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Dollars in thousands, except per share amounts)

The reasons for the difference between total tax expense (benefit) and the amount computed by applying the U.S. statutory federal income tax rate to income before income taxes are as follows:

	<b>Year ended December 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
Statutory rate applied to pretax income	\$ (82)	\$ 356	\$ 795
Federal alternative minimum tax	-	-	19
State income taxes, net of benefit of federal income taxes	(75)	46	133
Foreign income taxes over U.S. statutory rate	25	2	8
Net increase(decrease) in valuation allowance	(155)	(323)	(5,362)
Other items	-	-	422
Settlement of prior year's tax	17	-	(59)
Income tax expense (benefit)	<u>\$ (270)</u>	<u>\$ 81</u>	<u>\$ (4,044)</u>

As of December 31, 2004, the Company had approximately \$5.7 million in federal net operating loss carryovers, which expire in varying amounts between 2005 and 2023 (\$0.2 million in 2005, and \$5.5 million in 2006 and beyond). Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109), requires the Company to record a valuation allowance when it is "more likely than not that some portion or all of the deferred tax assets will not be realized." Since December 31, 2000 the Company has maintained a 100% valuation allowance equal to the net deferred tax assets. 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 as of December 31, 2004. The Company has reduced its valuation allowance which was provided in prior years. 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 tax assets.

As a result, in accordance with SFAS No. 109, the Company recorded a net deferred tax benefit (including the net change in valuation allowance) in the amount of \$4.1 million, which was recorded as a deferred tax benefit in the accompanying Consolidated Statements of Operations.

As a result of the reversal of the valuation allowance, beginning with the first quarter of 2005, the Company expects to begin providing an income tax provision on income before taxes equal to the combined federal and state effective rates, currently estimated to be 40% percent.

The Company's ability to utilize certain net operating loss carry forwards is restricted to approximately \$1.5 million per year cumulatively, as a result of an ownership change pursuant to Section 382 of the Internal Revenue Code.

Programmer's Paradise, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Dollars in thousands, except per share amounts)

The Company receives a tax deduction from the gains realized by employees on the exercise of certain non-qualified stock options for which the benefit 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.

For financial reporting purposes, income (loss) before income taxes includes the following components:

	<b>Year ended December 31</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
United States	\$(395)	\$816	\$2,147
Canada	153	231	131
	<u>\$(242)</u>	<u>\$1,047</u>	<u>\$2,278</u>

During the years ended December 31, 2002, 2003 and 2004, the Company paid (received) approximately \$(376), \$73 and \$ 38, respectively, in income taxes.

## **6. Stockholder's Equity and Stock Option Plans**

The Company's 1986 Employee Stock Option Plan ("1986 Plan"), as amended on June 15, 1994, provides for the grant of options to purchase up to 698,133 shares of the Company's Common Stock to employees, officers and directors of the Company. The terms of the options are for a maximum of ten years from date of grant and generally are exercisable at an exercise price equal to but not less than the fair market value of the Common Stock on the date that the option is granted. The options generally vest in equal annual installments over five years. There are no additional options available for grant under the Company's 1986 Plan.

On April 21, 1995, the Board of Directors adopted the Company's 1995 Employee Stock Plan ("1995 Plan"). The 1995 Plan, as amended on May 7, 1998, provides for the grant of options to purchase up to 1,137,500 shares of the Company's Common Stock to officers, directors, employees and consultants of the Company. The 1995 Plan requires that each option shall expire on the date specified by the Compensation Committee, but not more than ten years from its date of grant in the case of Incentive Stock Options ("ISO's") and Non-Qualified Options. Options granted under the plan are exercisable at an exercise price equal to but not less than the fair market value of the Common Stock on the grant date. ISO's shall either be fully exercisable on the date of grant or shall become exercisable thereafter in such installments as the committee may specify. The options granted in 2004 were fully exercisable on the date of grant.

On April 21, 1995, the Board of Directors adopted the Company's 1995 Non-Employee Director Plan ("1995 Director Plan"). The 1995 Director Plan, as amended on May 7, 1998, provides for the grant of options to purchase up to 187,500 shares of the Company's Common Stock to persons who are members of the Company's Board of Directors and not employees or officers of the Company.

## Programmer's Paradise, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Dollars in thousands, except per share amounts)

The 1995 Director Plan requires that options granted there under will expire ten years from the date of grant. Each option granted under the 1995 Director Plan becomes exercisable over a five year period, and vests in an installment of 20% of the total option grant upon the expiration of one year from the date of the option grant, and thereafter vests in equal quarterly installments of 5%.

In February 2002, the Board of Directors approved a plan permitting all option holders under the 1986 Plan and the 1995 Plan to surrender all or any portion of their options on or before March 1, 2002. By March 1, 2002, a total of 7,875 options to purchase the Company's Common Stock under the 1986 option plan and 303,550 options to purchase the Company's Common Stock under the 1995 Plan were surrendered, of which 305,175 were surrendered by the Company's executive officers. All of the options surrendered were exercisable in excess of the market price of the underlying Common Stock as of the dates of surrender.

On September 9, 2002, the Company granted 418,750 options at an option price of \$2.13 per share to officers and key-employees. The options granted vested immediately on September 9, 2002. The Company granted options to purchase 200,000 shares to William H. Willett, the Company's President and Chief Executive Officer; options to purchase 100,000 shares to Simon Nynens, the Company's Vice President and Chief Financial Officer; options to purchase 55,000 shares to Jeffrey Largiader, the Company's Vice President Marketing; and options to purchase 15,000 shares to Steven McNamara, the Vice President and General Manager of Programmer's Paradise Canada. The Company also granted options to purchase 16,875 shares to Directors on September 9, 2002. Each Director received options to purchase 3,375 shares of the Company's Common Stock at an option price of \$2.13 per share. The options granted to Directors vest in an installment of 20% of the total option grant one year after the date of the option grant, and thereafter in equal quarterly installments of 5%, subject to the terms and conditions set forth in the 1995 Non-Employee Director Plan.

On March 6, 2003, the Company granted 20,000 options at an option price of \$2.01 per share to Vito Legrottaglio the Company's Vice President and Chief Information Officer. The options granted vested immediately on March 6, 2003.

On June 10, 2004, the Company granted 495,000 options at an option price of \$8.03 per share to officers and key-employees of the Company. The options granted vested immediately on June 10, 2004. The Company granted options to purchase 125,000 shares to William H. Willett, the Company's President and Chief Executive Officer; options to purchase 100,000 shares to Simon Nynens, the Company's Executive Vice President and Chief Financial Officer; options to purchase 40,000 shares to Jeffrey Largiader, the Company's Vice President Sales & Marketing, options to purchase 40,000 shares to Vito Legrottaglio, the Company's Vice President and Chief Information Officer, options to purchase 40,000 shares to Dan Jamieson, General manager of the Company's Lifeboat division; and options to purchase 25,000 shares to Steve McNamara, the Vice President and General Manager of Programmer's Paradise Canada. Each director of the Company received options to purchase 25,000 shares of the Company's Common Stock at an option price of \$8.03 per share.

**Programmer's Paradise, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (continued)**  
(Dollars in thousands, except per share amounts)

Changes during 2002, 2003 and 2004 in options outstanding for the combined plans were as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Outstanding at January 1, 2002	584,653	5.75
Granted in 2002	435,625	2.13
Canceled in 2002	(362,241)	6.30
Exercised in 2002	-	-
Outstanding at December 31, 2002	658,037	3.12
Granted in 2003	20,000	2.01
Canceled in 2003	(5,625)	0.67
Exercised in 2003	(83,375)	2.11
Outstanding at December 31, 2003	589,037	3.24
Granted in 2004	495,000	8.03
Canceled in 2004	(937)	4.00
Exercised in 2004	(115,880)	3.10
Outstanding at December 31, 2004	967,220	5.71
Exercisable at December 31, 2004	944,685	5.77

The options exercisable at December 31, 2003 and 2004 were 522,965 and 944,685, respectively.

Stock options outstanding at December 31, 2004 are summarized as follows:

<b>Range of Exercise Prices</b>	<b>Outstanding Options as of December 31, 2004</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Options Exercisable as of December 31, 2004</b>	<b>Weighted Average Exercise Price</b>
2.00 – 2.24	306,532	7.7	2.12	297,247	2.12
2.25 – 3.99	37,188	4.6	3.76	25,938	3.72
4.00 – 5.99	41,000	0.6	4.16	39,000	4.07
6.00 – 7.99	82,500	2.9	6.60	82,500	6.60
8.00 – 8.50	500,000	9.4	8.03	500,000	8.03
	<u>967,220</u>			<u>944,685</u>	

Under the various plans, options that are cancelled can be reissued. At December 31, 2004, 54,095 options were reserved for future issuance. The weighted average fair value of options granted during 2002, 2003 and 2004 is \$2.13, \$2.01 and \$8.03 respectively.

Programmer's Paradise, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Dollars in thousands, except per share amounts)

**7. Defined Contribution Plan**

The Company maintains a defined contribution plan covering substantially all domestic employees. Participating employees may make contributions to the plan, through payroll deductions. Matching contributions are made by the Company equal to 50% of the employee's contribution to the extent such employee contribution did not exceed 6% of their compensation. During the years ended December 31, 2002, 2003 and 2004, the Company expensed approximately \$73, \$84 and \$106 respectively, related to this plan.

## 8. Commitments

Operating leases 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 future minimum rental payments for the remaining terms of the Company's leases in the U.S. and Canada are as follows:

2005	564
2006	578
2007	345
2008	87
2009	89
Thereafter	30
	<u>\$ 1,693</u>

The Company entered into an employment agreement with its chief executive officer which expires January 15, 2006. The agreement provides for a base salary and a bonus, if certain targets are met.

In the event that Mr. Willett's employment is terminated without cause or by the rendering of a non-renewal notification, he is entitled to receive severance payments equal to twelve months salary and immediate vesting of all outstanding stock awards. Additionally, in the event that a change of control of the Company occurs (as described in the employment agreement), Mr. Willett's outstanding stock awards become immediately vested and he is entitled to the pro-rata performance bonus based upon stock price at the date of such change in control.

The Company has entered into letter agreements with Mr. Nynens and Mr. Legrotaglie. Mr. Nynens is entitled to severance payments for nine months at the then applicable annual base salary if the Company terminates his employment for any reason other than for cause. Mr. Legrotaglie is entitled to severance payments for six months at the then applicable annual base salary if the Company terminates his employment for any reason other than for cause.

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. Rent expense for the years ended December 31, 2002, 2003 and 2004 was approximately \$488, 483 and \$478 respectively.

## Programmer's Paradise, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

(Dollars in thousands, except per share amounts)

## 9. Industry segment and Geographic information

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.

Geographic revenue and identifiable assets related to operations as of and for the years ended December 31 2002, 2003 and 2004 were as follows

	<b>2002</b>	<b>2003</b>	<b>2004</b>
Net sales to Unaffiliated Customers:			
United States	\$ 55,447	\$ 59,366	\$ 92,254
Canada	9,710	10,203	11,328
Total	<u>\$65,157</u>	<u>\$69,569</u>	<u>\$103,582</u>
Identifiable Assets by Geographic Areas:			
United States	\$ 16,916	\$ 17,176	\$ 28,230
Canada	2,552	3,313	4,684
Total	<u>\$19,468</u>	<u>\$20,489</u>	<u>\$32,914</u>

One customer, CDW Corporation, accounted for 12.7% and 11.8% of consolidated net sales in 2004 and 2003, respectively, and 3.3% and 7.0% of accounts receivable as of December 31, 2004 and 2003, respectively. Our top five customers accounted for 22% of consolidated net sales in 2004 and 2003. The Company generally ships products within 48 hours of confirming a customer's order. This allows for minimum backlog in the business.

#### **10. Quarterly Results of Operations (Unaudited)**

The following table presents summarized quarterly results for 2004:

	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Net sales	\$20,679	\$25,093	\$26,788	\$31,022
Gross profit	2,601	3,068	3,214	3,456
Net income	362	523	626	4,811
Basic net income per common share	\$0.10	\$0.14	\$0.16	\$1.25
Diluted net income per common share	\$0.09	\$0.13	\$0.15	\$1.10

Programmer's Paradise, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements (continued)  
(Dollars in thousands, except per share amounts)

The following table presents summarized quarterly results for 2003:

	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Net sales	\$15,198	\$16,051	\$18,355	\$19,965
Gross profit	1,988	2,123	2,294	2,555
Net income (loss)	41	203	333	389
Basic net income per common share	\$0.01	\$0.05	\$0.09	\$0.11
Diluted net income per common share	\$0.01	\$0.05	\$0.09	\$0.10

## **11. Settlement of Escrow (Items in thousands)**

Pursuant to an Agreement, dated December 1, 2000 (“Stock Sale Agreement”), between the Company and PC-Ware Information Technologies AG, a German corporation (“PC-Ware”), on January 9, 2001 the Company sold all of the shares of its European subsidiaries for 14,500 Euros, subject to post-closing adjustments, including finalization of the closing balance sheet, in accordance with the Stock Sale Agreement. As security for any claim of PC-Ware arising from alleged breaches of representations by the Company under the Stock Sale Agreement, 2,666 Euros (the equivalent of \$2,629) were being held in an escrow account as of September 30, 2002. In September 2001, PC-Ware made claims aggregating 2,490 Euros against the escrow.

On October 1, 2002, the claims brought against the Company by PC-Ware were settled for 435 Euros (the equivalent as of such date of \$429). Associated fees, comprising of counsel fees, expert witness fees, arbitration fees, consultancy fees paid to the Company’s previous Chief Financial Officer, and travel and related expenses, amounted to \$269. This settlement amount and associated fees amounted to \$698 in the third quarter of 2002. Since the Company had established reserves of \$350 for this claim in the fourth quarter of 2001, the Company reported an additional \$348 for this settlement and associated fees in the third quarter of 2002.

As of December 31, 2004, there are no legal proceedings pending against the Company or any of its subsidiaries.

## **12. Subsequent Events**

The company entered into a lease on January 28, 2005 to rent approximately 4,000 square feet of office space in Hauppauge, New York under a five-year lease expiring in April 2010. Total annual rent expense for these premises is approximately \$70.

Programmer's Paradise, Inc. and Subsidiaries  
Schedule II--Valuation and Qualifying Accounts  
(In Thousands)

<b>Description</b>	<b>Beginning Balance</b>	<b>Charged to Cost and Expense</b>	<b>Deductions</b>	<b>Ending Balance</b>
Year ended December 31, 2002:				
Allowances for accounts receivable	\$791	\$662	\$725	\$728
Reserve for obsolescence	\$210	\$25	\$61	\$174
Valuation allowance deferred taxes	\$6,699	\$(155)	-	\$6,544
Year ended December 31, 2003:				
Allowances for accounts receivable	\$728	\$392	\$498	\$622
Reserve for obsolescence	\$174	-	\$42	\$132
Valuation allowance deferred taxes	\$6,544	\$(323)	-	\$6,221
Year ended December 31, 2004:				
Allowances for accounts receivable	\$622	\$393	\$260	\$755
Reserve for obsolescence	\$132	-	\$89	\$43
Valuation allowance deferred taxes	\$6,221	\$(5,362)	-	\$859

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-72249) of Programmer's Paradise, Inc., pertaining to the Programmer's Paradise, Inc. 1986 Stock Option Plan, the Programmer's Paradise, Inc. 1995 Stock Plan and the Programmer's Paradise, Inc. 1995 Non-Employee Director Plan, of our report dated February 16, 2005, relating to the consolidated financial statements and financial statement schedule of Programmer's Paradise, Inc., which appears in the Annual Report (Form 10-K) of Programmer's Paradise, Inc. for the year ended December 31, 2004.

Edison, New Jersey  
March 14, 2005

/s/ Amper, Politziner & Mattia P.C.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, William H. Willett, President and Chief Executive Officer of Programmer's Paradise, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Programmer's Paradise, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2005

/s/ William H. Willett

William H. Willett

President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Simon F. Nynens, Executive Vice President and Chief Financial Officer of Programmer's Paradise, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Programmer's Paradise, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2005

/s/ Simon F. Nynens  
Simon F. Nynens  
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003

In connection with the Annual Report of Programmer's Paradise, Inc. (the "Company") on Form 10-K for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William H. Willett, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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William H. Willett  
Chief Executive Officer  
March 14, 2005

*A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by Company and furnished to the Securities and Exchange Commission or its staff upon request.*

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2003

In connection with the Annual Report of Programmer's Paradise, Inc. (the "Company") on Form 10-K for the period ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Simon F. Nynens, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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Simon F. Nynens  
Chief Financial Officer  
March 14, 2005

*A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by Company and furnished to the Securities and Exchange Commission or its staff upon request.*