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

FORM 10-Q

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

For the quarterly period ended September 30, 2001

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

For the transition period from __________ to __________

Commission File No. 000-26408

Programmer's Paradise, Inc.
(Name of issuer in its charter)

| | |
|---|---|
| Delaware | 13-3136104 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1157 Shrewsbury Avenue, Shrewsbury, New Jersey | 07702 |
| (Address of principal executive offices) | (Zip Code) |

Issuer's Telephone Number (732) 389-8950

Check whether the issuer (1) 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 X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

There were 5,230,250 outstanding shares of Common Stock, par value $.01 per share, as of November 5, 2001.

PROGRAMMER'S PARADISE, INC.

Index to Form 10-Q

PART I - FINANCIAL INFORMATION

PROGRAMMER'S PARADISE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS

| | September 30, 2001 (Unaudited) | December 31, 2000 (Audited) |
|---|---|---|
| Current Assets | | |
| Cash and cash equivalents | $ 11,002 | $ 2,091 |
| Cash held in escrow | 3,048 | - |
| Accounts receivable, net | 14,127 | 13,048 |
| Inventory - finished goods | 1,091 | 2,631 |
| Prepaid expenses and other current assets | 826 | 2,342 |
| Net assets held for sale | - | 12,163 |
| Total current assets | 30,094 | 32,275 |
| Equipment and leasehold improvements, net | 751 | 934 |
| Other assets | 351 | 391 |
| Goodwill, net | 236 | 255 |
| | $ 31,432 | $ 33,855 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | September 30, 2001 | December 31, 2000 |
|---|---|---|
| Current Liabilities | | |
| Accounts payable and accrued expenses | $ 13,988 | $ 14,939 |
| Other current liabilities | 11 | 10 |
| Total current liabilities | 13,999 | 14,949 |
| Stockholders' equity | | |
| Common stock | 53 | 53 |
| Additional paid-in capital | 35,482 | 35,476 |
| Treasury stock | (1,451) | (1,325) |
| Retained earnings | (16,163) | (15,017) |
| Accumulated other comprehensive loss | (488) | (281) |
| Total stockholders' equity | 17,433 | 18,906 |
| | $ 31,432 | $ 33,855 |

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



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

<TABLE>

<S> <C> <C> <C> <C>

| | Nine months ended September 30, | | Three months ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |

| | | | | |
|---|---|---|---|---|
| Net sales | $ 72,468 | $147,650 | $ 24,177 | $ 42,304 |
| Cost of sales | 65,161 | 132,589 | 21,859 | 37,636 |
| Gross profit | 7,307 | 15,061 | 2,318 | 4,668 |
| Selling, general and administrative expenses | 8,200 | 16,234 | 2,733 | 4,753 |
| Depreciation | 391 | 724 | 110 | 236 |
| Amortization | 144 | 1,059 | 47 | 326 |
| Loss from operations | (1,428) | (2,956) | (572) | (647) |
| Interest income (expense), net | 300 | (10) | 106 | 1 |
| Unrealized foreign exchange gain (loss) | 47 | (122) | 38 | 95 |
| Loss before income taxes | (1,081) | (3,088) | (428) | (551) |
| Provision (benefit) for taxes | 65 | (893) | - | (99) |
| Net loss | $ (1,146) | $ (2,195) | $ (428) | $ (452) |
| Net loss per common share-Basic and Diluted | $ (0.23) | $ (0.44) | $ (0.09) | $ (0.09) |
| Weighted average common shares outstanding-Basic and Diluted | 4,992 | 4,983 | 4,995 | 4,985 |

Reconciliation of Net Loss to Comprehensive Loss:

| | | | | |
|---|---|---|---|---|
| Net loss | $ (1,146) | $(2,195) | $ (428) | $ (452) |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (207) | (600) | 39 | 498) |
| Comprehensive loss | $ (1,353) | $(2,795) | $ (389) | $ (950) |

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

</TABLE>

PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

<TABLE>

| <S> | <C> | <C> | <C> | <C> |
|---|---|---|---|---|
| | Nine months ended September 30, | | Three months ended September 30, | |
| | 2001 | 2000 (a) | 2001 | 2000 (a) |
| Net sales | $ 72,468 | $ 66,891 | $ 24,177 | $ 23,143 |
| Cost of sales | 65,161 | 58,507 | 21,859 | 20,180 |
| Gross profit | 7,307 | 8,384 | 2,318 | 2,963 |
| Selling, general and administrative expenses | 8,200 | 7,970 | 2,733 | 2,372 |
| Depreciation | 391 | 444 | 110 | 153 |
| Amortization | 144 | 975 | 47 | 326 |
| Income (loss) from operations | (1,428) | (1,005) | (572) | 112 |
| Interest income, net | 300 | - | 106 | 21 |
| Unrealized foreign exchange gain | 47 | 97 | 38 | 25 |
| Income (loss) before income taxes | (1,081) | (908) | (428) | 158 |
| Provision (benefit) for taxes | 65 | (277) | - | 111 |
| Net income (loss) | $ (1,146) | $ (631) | $ (428) | $ 47 |
| Net income (loss) per common share-Basic and Diluted | $ (0.23) | $ (0.13) | $ (0.09) | $ 0.01 |
| Weighted average common shares outstanding-Basic and Diluted | 4,992 | 4,985 | 4,995 | 4,985 |

</TABLE>

(a) Pro forma statement of operations for the results from North America and Programmer's Paradise, S.A.R.L. for the nine and three month periods ended September 30, 2000.



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

| | Nine months ended September 30, | |
|---|---|---|
| | 2001 | 2000 |
| Cash flows from operating activities: | | |
| Net loss | $ (1,146) | $ (2,195) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Deferred income taxes | - | 14 |
| Depreciation | 391 | 724 |
| Amortization | 144 | 1,150 |
| Provision for doubtful accounts | 432 | 425 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,408) | 10,486 |
| Inventory | 1,540 | (1,126) |
| Prepaid expenses and other current assets | 1,515 | 1,271 |
| Accounts payable and accrued expenses | (1,090) | (18,433) |

| | | |
|---|---|---|
| Net change in other assets and liabilities | (86) | (5,357) |
| Net cash provided by (used for) operations | 292 | (13,041) |
| Cash flows from investing activities: | | |
| Change in net assets held for sale | 12,163 | - |
| Increase in cash held in escrow | (3,048) | - |
| Capital expenditures | (207) | (484) |
| Net cash provided by (used for) investing | 8,908 | (484) |
| Cash flows from financing activities: | | |
| Net proceeds from issuance of common stock | 6 | (396) |
| Sale (purchase) of treasury stock | (126) | 30 |
| Borrowings under lines of credit | 14,598 | 2,375 |
| Repayments under lines of credit | (14,598) | (4,200) |
| Net cash used for financing activities | (120) | (2,191) |
| Effect of foreign exchange rate on cash | (169) | (600) |
| Net increase (decrease) in cash and cash equivalents | $ 8,911 | $ (16,316) |
| Cash and cash equivalents at beginning of period | 2,091 | 17,597 |
| Cash and cash equivalents at end of period | $ 11,002 | $ 1,281 |

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



PROGRAMMER'S PARADISE, INC.
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
September 30, 2001

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine and three months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

2. Assets and liabilities of the Company's Canadian subsidiary and its former European subsidiaries, have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the periods. 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".

3. In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company adopted SFAS 133 on January 1, 2001. Adoption of this Statement did not have a significant impact on the Company's results of operations or financial condition.

4. Basic and diluted earnings per share are calculated in accordance with FASB Statement No. 128, "Earnings per Share". Basic earnings per share are computed by dividing net income (loss) by the number of weighted shares of common stock outstanding during the period. Diluted earnings per share is determined in the same manner as basic earnings per share except that the number of shares is increased assuming exercise of dilutive stock options, warrants and convertible securities. Potentially dilutive securities have been excluded from the calculation for all periods presented as their effect is antidilutive.

5. Certain prior period balances have been reclassified to conform with the

current period presentation.

6. In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. The Company is currently reviewing the impact of these standards and will be performing a fair value analysis at a later date in connection with the adoption of SFAS No. 142 on January 1, 2002.

7. In September 2001 (just prior to expiration of the time to make claims against the escrow), PC-Ware made claims aggregating 2,190,127 Euros (plus interest) (the equivalent of approximately $1,997,000) against the escrow. On October 19, 2001, 735,789 Euros (the equivalent of approximately $654,373) were distributed from the escrow account to the Company. The Company believes that PC-Ware's claims are without merit and intends to vigorously dispute each of such baseless claims in the arbitration proceedings, which will resolve the disputed claims.



8. In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of", effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supercedes SFAS No. 121, removes goodwill from its scope and identifies the methods to be used in determining fair value. The Company is currently reviewing the impact of this standard and will be performing an analysis at a later date in connection with the adoption of SFAS No. 144 on January 1, 2002.

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

Overview

Programmer's Paradise, Inc. is a recognized international marketer of software targeting the software development and Information Technology professionals within enterprise organizations. The Company operates principally, through five distribution channels in the United States and Canada - Internet, catalog, direct sales, telemarketing, and wholesale distribution. Internet sales encompass the Company's e-Commerce enabled website: www.programmersparadise.com. Catalog operations include worldwide catalog sales, advertising and publishing. Direct sales operations include Programmer's Paradise Corporate Sales in the United States. Telemarketing operations are presently conducted in the United States and Canada. Wholesale operations include distribution to dealers and large resellers through Lifeboat Distribution in the United States and Canada. Information contained on our web sites is not, and should not be deemed to be, a part of this report.

The Company's strategic focus is to expand its catalog and Internet activities while solidifying its position as the predominant direct sales company for corporate desktop application software. A key element of that strategy is to build upon its distinctive catalogs - the established Programmer's Paradise catalog, directed at independent professional programmers, and its Corporate Developer's Paradise catalog, directed at Information Technology professionals working in large corporations, and to utilize the catalogs as banner advertising for developing its internet traffic as well as being the initial conduit to developing its telemarketing channel. The Company's focus for direct sales is to assist companies in managing their IT expenditures, a value-added selling approach.

Results of Operations

The following table and related text is based upon the Pro Forma Statements of Operations for the nine and three-month periods ended September 30, 2001 and 2000. The following table sets forth certain financial information expressed as a percentage of net sales.

| | Nine months ended September 30, | | Three months ended September 30, | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Net Sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of Sales | 89.9 | 87.5 | 90.4 | 87.2 |
| Gross Profit | 10.1 | 12.5 | 9.6 | 12.8 |
| Selling, general and administrative expenses | 11.3 | 11.9 | 11.3 | 10.2 |
| Depreciation | 0.5 | 0.7 | 0.5 | 0.6 |
| Amortization | 0.2 | 1.4 | 0.2 | 1.4 |

| | | | | |
|---|---|---|---|---|
| Income (loss) from operations | (1.9) | (1.5) | (2.4) | 0.6 |
| Interest income, net | 0.4 | 0.0 | 0.5 | 0.0 |
| Unrealized foreign exchange gain (loss) | (0.0) | (0.1) | 0.1 | 0.1 |
| Income (loss) before income taxes | (1.5) | (1.4) | (1.8) | 0.7 |
| Income taxes (benefit) | (0.1) | (0.4) | (0.0) | 0.5 |
| Net income (loss) | (1.6)% | (1.0)% | (1.8)% | 0.2% |



Net Sales

Net sales of the Company represents the gross revenue of the Company less returns. Although net sales consist primarily of sales of software, revenue from marketing services and advertising is also included within net sales. Net sales for the quarter ended September 30, 2001 increased by $1.0 million or 4%, to $24.1 million, over the same period in 2000. For the nine months ended September 30, 2001, net sales increased by $5.6 million or 8% over the nine months ended September 30, 2000. The increase in net sales is primarily attributed to improved account management, customer service responsiveness, and providing customers with competitive pricing.

Gross Profit

Gross profit represents the difference between net sales and cost of sales. Cost of sales is comprised primarily of amounts paid by the Company to publishers and vendors plus catalog printing and mailing costs. Publisher and vendor rebates are credited against cost of sales. For the three-month period ended September 30, 2001, gross profit as a percentage of sales decreased from 13% to 10% over the same period in 2000. Gross profit in absolute dollars for the three-month period ended September 30, 2001 decreased by $645,000 over the same period in 2000. For the nine months ended September 30, 2001, the gross profit decreased by $1.1 million over the same period in 2000. These decreases are mainly attributable to a shift in sales mix through the Company's distribution channels and as a result of additional competitive pressures within the direct sales channel.

The mix of products sold and the mix of distribution channels have affected gross margins. Historically, the gross margins attained in the catalog channel have been higher than either the direct sales or distribution channels. Gross margins within the direct sales channel are also subject to mix variations as Microsoft Select License sales typically produce lower gross margin results. The emergence of the Internet as a viable commerce channel has provided the Company another competitive means to reach its customer base and compete more effectively in the market place.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses include all corporate personnel costs (including salaries and health benefits), non-personnel-related marketing and administrative costs and the provision for doubtful accounts.

SG&A expenses for the three-month period ended September 30, 2001 increased by $361,000 over the same period in 2000. For the nine months ended September 30, 2001, SG&A expenses increased by $230,000 over the same period in 2000. The increase mainly reflects additional reserves against uncollectable invoices and increased marketing and selling expenses.

Depreciation

Depreciation expense for the three-month period ended September 30, 2001 decreased to $110,000 from $153,000 over the same period in 2000. For the nine months ended September 30, 2001, depreciation expense totaled $391,000 as compared to $444,000 for the comparable period in 2000. This decrease is attributable to an increase in capitalized items becoming fully depreciated, such as furniture, computers, and equipment.



Amortization

Amortization expense includes the systematic write-off of goodwill. Amortization expense for the three months ended September 30, 2001, decreased by $279,000 as compared to the same period in 2000. Amortization expense for the nine months ended September 30, 2001 decreased by $831,000. This decrease is a result of the one time charge taken in December 2000 for the impairment of goodwill associated from the acquisition of Software Developers Corporation.

Interest, net

Net interest income for the three months ended September 30, 2001 increased to $106,000 compared to $21,000 for the same period in 2000. For the nine months ended September 30, 2001, net interest income was $300,000 compared to net interest expense of $0 for the comparable period in 2000. The increase for the nine-month period ended September 30, 2000 is attributable to the interest earned on investments from the proceeds of the sale of the Company's European subsidiaries.

Unrealized Foreign Exchange Gain (Loss)

Unrealized foreign exchange gain for the three months ended September 30, 2001 was $38,000 compared to $25,000 in the same period in 2000. For the nine months ended September 30, 2001, the unrealized foreign exchange gain was $47,000 as compared to $97,000 for the comparable period in 2000. The unrealized gain in the first nine months of 2001 is primarily due to the trade activity with our Canadian subsidiary. Although the Company does maintain bank accounts in local currencies to reduce the risk of currency exchange fluctuations, the Company is, nevertheless, subject to risks associated with such fluctuations.

Income Taxes

The Company did not record any income taxes for the three months ended September 30, 2001 compared to an expense of $111,000 for the same period in 2000. For the nine months ended September 30, 2001, the Company recorded a provision for income taxes of $65,000 as compared to a benefit for income taxes of $277,000 for the comparable period in 2000.

Net Income (Loss)

Net loss for the quarter ended September 30, 2001 was $428,000 or $.09 per share on a diluted basis with approximately 4,995,000 weighted average



common shares outstanding compared to net income of $47,000 or $.01 per share on a diluted basis with approximately 4,985,000 weighted average common shares outstanding for the same period of the previous year. For the nine months ended September 30, 2001, net loss was $1.1 million or $.23 per share on a diluted basis with approximately 4,992,000 weighted average common shares outstanding compared to net loss of $631,000 or $.13 per share on a diluted basis with approximately 4,985,000 weighted average common shares outstanding for the same period in 2000.

Liquidity and Capital Resources

The Company's capital requirements have primarily been funded through working capital generated from continued sales growth. At September 30, 2001, the Company's cash and cash equivalents were $11.0 million and working capital was $16.1 million.

Net cash provided by operations was $292,000 for the nine months ended September 30, 2001 compared with $13.0 million of cash used for operating activities in the same period of the previous year. During the nine months ended September 30, 2001, cash was provided by a reduction of inventory and prepaid expenses (approximately $3.1 million) and offset by an increase in accounts receivable (approximately $1.4 million) and accounts payable (approximately $1.1 million).

Net cash provided by investing activities was $8.9 million for the nine months ended September 30, 2001 compared with $484,000 of cash used for investing activities in the same period in 2000. This increase primarily reflects the $12.2 million cash received for the sale of the European subsidiaries to PC-Ware Information Technologies AG ("PC-Ware") completed on January 9, 2001, less the $3.0 million cash being held in a 240-day escrow as security for any claim of PC-Ware in the event there are any breaches of representations by the Company under the Agreement for the Sale and Purchase of Shares, dated December 1, 2000 between the Company and PC-Ware (the "Agreement for the Sale and Purchase of Shares"). A claim has been brought by PC-Ware against the Company's escrow balance. For further information, see Part II - Legal Proceedings.

Net cash used by financing activities was $120,000 for the nine months ended September 30, 2001 compared with net cash used of $2.2 million in the same period in 2000. Net cash of $126,000 was used during the nine months ended September 30, 2001, to purchase 31,500 shares of the Company's stock.

On February 9, 2001, the Company entered into a Loan and Security Agreement (the "Loan Agreement") with Hudson United Bank ("Hudson"). The Loan Agreement provides for a revolving credit facility of up to $5.0 million with an initial term expiring April 1, 2003. The amount of available credit is determined by the level of certain eligible accounts receivable. The facility bears interest at Hudson's prime rate (6.00% at September 30, 2001) plus 1%. Additionally, the Loan Agreement contains various covenants including a financial covenant that generally requires the Company to maintain a current ratio (as defined in the Loan Agreement) of 1.5 to 1. The Loan Agreement is subject to customary event of default and acceleration provisions and is collateralized by substantially all of the Company's assets. At September 30, 2001, there were zero amounts outstanding under the revolving credit facility.



Foreign Exchange

As a result of the sale by the Company of its European subsidiaries, 3,275,000 Euros (the equivalent of approximately $2,986,000 at September 30, 2001) is being held in escrow as security for the Company's obligation to indemnify PC-Ware in the event the Company has breached certain representations and warranties made to PC-Ware under the Agreement for the Sale and Purchase of Shares, subject to a 300,000 Euro de minimus amount and a 7.5 million Euro maximum amount. The balance in the escrow account at September 30, 2001 is 3,343,000 Euros (the equivalent of approximately $3,048,000), which represents the initial deposit of 3,275,000 Euros plus net interest earned of 68,000 Euros (the equivalent of approximately $62,000). The amount is subject to change based upon fluctuations in the Euro to U.S. dollar exchange rate until converted to U.S. dollars and until settlement of any potential claims. A claim has been brought by PC-Ware against the Company's escrow balance. For further information see Part II - Legal Proceedings.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. The Company is currently reviewing the impact of these standards and will be performing a fair value analysis at a later date in connection with the adoption of SFAS No. 142 on January 1, 2002.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of", effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supercedes SFAS No. 121, removes goodwill from its scope and identifies the methods to be used in determining fair value. The Company is currently reviewing the impact of this standard and will be performing an analysis at a later date in connection with the adoption of SFAS No. 144 on January 1, 2002.

Forward-Looking Statements

This report includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "will", "should" or "anticipates" or the negative thereof or comparable terminology, or by discussions of strategy. 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. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in this report as well as the Company's most recent annual report on Form 10-K, and include risks and uncertainties related to the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, and contribution of key vendor relationships and support



programs, as well as factors that affect software industry generally. The Company cautions the reader that this list of factors may not be exhaustive.

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.

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

### Foreign Operations

The Company's shipments to its Canadian subsidiary are invoiced in U.S. dollars. The Company believes its foreign exchange exposure caused by these shipments is insignificant. The Company is, however, exposed to exchange conversion differences in translating results of operations for its Canadian subsidiary to U.S. dollars. Depending upon the strengthening or weakening of the U.S. dollar, these conversion differences could be significant.

Sales to the Company's customers in European countries are denominated in U.S. dollars. The Company does not hedge its net asset exposure to fluctuations in the U.S. Dollar against any such local currency exchange rates. Although the Company does maintain bank accounts in local currencies to reduce the risk of currency exchange fluctuations, the Company is, nevertheless, subject to risks associated with such fluctuations.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

As indicated under Liquidity and Capital Resources, a 3,275,000 Euro escrow (the equivalent of approximately $2,986,000) was established to secure the Company's indemnity obligations to PC-Ware in connection with the Company's sale of its European subsidiaries to PC-Ware. In September 2001 (just prior to expiration of the time to make claims against the escrow), PC-Ware made claims aggregating 2,190,127 Euros (plus interest) (the equivalent of approximately $1,997,000) against the escrow. On October 19, 2001, 735,789 Euros (the equivalent of approximately $654,373) were distributed from the escrow account to the Company.

The Company believes that PC-Ware's claims are without merit and intends to vigorously dispute each of such baseless claims in the arbitration proceedings, which will resolve the disputed claims.

### Item 6. Exhibits and Reports on Form 8-K

The Company did not file any reports on Form 8-K during the three months ended September 30, 2001.



## SIGNATURES

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

PROGRAMMER'S PARADISE, INC.

| November 13, 2001 | By: /s/William H. Sheehy |
|---|---|
| Date | William H. Sheehy, Chief Financial Officer,<br>Vice President of Finance |