

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

FORM 10-Q

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

For the quarterly period ended June 30, 1997

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

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

Commission File No. 33-92810

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

Delaware 13-3136104  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

1163 Shrewsbury Avenue, Shrewsbury, New Jersey 07702  
(Address of principal executive offices) (Zip Code)

Issuer's Telephone Number (908) 389-8950

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

Yes  No

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

There were 4,809,098 outstanding shares of Common Stock, par value \$.01 per share, as of August 7, 1997.

Page 1

Exhibit index is on page 14.

PROGRAMMER'S PARADISE, INC.

Index to Form 10-Q

Page No.

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheet as of June 30, 1997 and December 31, 1996	3
Condensed Consolidated Statements of Income for the Six Months and Three Months Ended June 30, 1997 and 1996	4
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 1997 and 1996	5
Notes to Condensed Consolidated Financial Statements	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	7
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PART II -- OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders	12
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Page 2

## PART I - FINANCIAL INFORMATION

## PROGRAMMER'S PARADISE, INC.

CONDENSED CONSOLIDATED BALANCE SHEET  
(In thousands)

## ASSETS

	June 30, 1997 ----	December 31, 1996 ----
	(Unaudited)	*
Current Assets		
Cash and cash equivalents	\$ 9,904	\$ 16,281
Accounts receivable	22,452	26,826
Inventory	4,807	4,464
Prepaid expenses and other current assets	2,734	2,946
Deferred income taxes	1,142	1,097
	-----	-----
Total current assets	41,039	51,614
Equipment and leasehold improvements	1,683	1,695
Goodwill	12,350	12,768
Other assets	1,031	912
Deferred income taxes	2,220	2,220
	-----	-----
	\$ 58,323	\$ 69,209
	=====	=====

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Notes payable to banks	\$ 710	\$ 1,135
Accounts payable and accrued expenses	24,802	35,760
Other current liabilities	2,476	2,303
	-----	-----
Total current liabilities	27,988	39,198
Other liabilities	103	116
Notes payable to banks - long term	--	1,050
Stockholders' equity		
Common stock	48	48
Additional paid-in capital	33,544	33,510
Accumulated deficit	(2,399)	(4,220)
Treasury stock	(376)	(376)
Cumulative foreign currency adjustment	(585)	(117)
	-----	-----
Total stockholders' equity	30,232	28,845
	-----	-----
	\$ 58,323	\$ 69,209
	=====	=====

\* Condensed from audited financial statements.

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

Page 3

## PROGRAMMER'S PARADISE INC.

CONDENSED CONSOLIDATED STATEMENT OF INCOME  
(Unaudited)

(In thousands, except per share data)

<TABLE>  
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	Six months ended June 30, -----		Three months ended June 30, -----	
	1997 ----	1996 ----	1997 ----	1996 ----
<S>	<C>	<C>	<C>	<C>

Net sales	\$ 78,039	\$ 51,143	\$ 39,099	\$ 25,118
Cost of sales	65,934	42,721	32,897	20,744
Gross profit	12,105	8,422	6,202	4,374
Selling, general and administrative expenses	8,656	7,733	4,473	3,778
Amortization expense	452	57	226	29
Income from operations	2,997	632	1,503	567
Interest income, net	103	287	68	94
Unrealized foreign exchange loss	(101)	--	(23)	--
Income before income taxes	2,999	919	1,548	661
Income tax expense	1,178	383	612	276
Minority interest	--	233	--	143
Net income	\$ 1,821	\$ 769	\$ 936	\$ 528
Weighted average common shares outstanding	5,281	5,173	5,314	5,144
Net income per common share	\$ .34	\$ .15	\$ .18	\$ .10

</TABLE>

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

Page 4

PROGRAMMER'S PARADISE, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

(In thousands)

	Six Months Ended	
	1997	1996
Cash provided by (used for)		
Operations:		
Net income	\$ 1,821	\$ 769
Adjustments for non cash charges	920	547
Changes in assets and liabilities	(7,310)	(10,434)
Net cash provided by (used for) operations	(4,569)	(9,118)
Investing:		
Capital expenditures	(305)	(276)
Capitalized software costs	(28)	(14)
Acquisitions, net of cash acquired	(34)	(9,360)
Net cash (used for) investing	(367)	(9,650)
Financing:		
Purchase of treasury stock	--	(376)
Net proceeds from sale of common stock	34	--
Borrowings under lines of credit	3,406	5,478
Repayments under lines of credit	(4,881)	(5,433)
Net cash (used for) financing activities	(1,441)	(331)
Net change in cash	(6,377)	(19,099)
Cash at beginning of year	16,281	27,702
Cash at end of period	\$ 9,904	\$ 8,603

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

PROGRAMMER'S PARADISE, INC.

NOTES TO CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
June 30, 1997

1. The financial information included herein is unaudited; however, such information has been prepared in accordance with generally accepted accounting principles and reflects all adjustments, consisting solely of normal recurring adjustments which are, in the opinion of management, necessary for a fair statement of results for the interim periods. Operating results for the six month period ended June 30, 1997, are not necessarily indicative of the results that may be expected for the year ended December 31, 1997. For further information, refer to the consolidated financial statements and notes thereto included in the Company's 1996 10-K filing dated March 28, 1997.
2. Assets and liabilities of the foreign subsidiaries, all of which are located in Europe, 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. Resulting cumulative translation adjustments have been recorded as a separate component of stockholders' equity.
3. In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share, which is required to be adopted on December 31, 1997. At that time, the Company will be required to change the method currently used to compute earnings per share and to restate all prior periods. Under the new requirements for calculating primary earnings per share, the dilutive effect of stock options will be excluded. The impact is expected to result in an increase in primary earnings per share for the quarters ended June 30, 1997 and June 30, 1996 of \$0.02 and \$0.01 per share, respectively. For the six months ended June 30, 1997 and June 30, 1996, the impact is expected to result in an increase in primary earnings per share of \$0.04 and \$0.01 per share, respectively. The impact of Statement 128 on the calculation of fully diluted earnings per share for these quarters is not expected to be material.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The Company is a distributor of software, operating through three distribution channels-cataloging, corporate reseller and wholesale operations. Catalog operations include worldwide catalog sales, advertising and publishing. Corporate reseller operations include Corsoft, Inc. in the U.S. and ISP\*D International Software Partners GmbH ("ISP\*D") in Munich, Germany, wholly owned subsidiaries of the Company, and ISP\*F International Software Partners France ("ISP\*F"), a majority-owned company located in Paris, France. Wholesale operations include distribution to dealers and large resellers through Lifeboat Distribution Inc. in the U.S. and Lifeboat Associates Italia Srl ("Lifeboat Italy") in Milan, Italy, also subsidiaries of the Company.

The Company began European-based operations in the first quarter of 1993, when it acquired a controlling interest in Lifeboat Italy, a long-standing software distributor in Italy. In January and April 1994, the Company purchased the remaining ownership interest in Lifeboat Italy. In June 1994, the Company acquired a 90% controlling interest in ISP\*D, a large software-only dealer and a leading independent supplier of Microsoft Select licenses and other software to many large German and Austrian companies. In January 1995, the remaining 10% interest in ISP\*D was purchased by the Company. In late 1994, the Company organized a subsidiary in the United Kingdom to engage in catalog operations, and in December 1995 the Company acquired Systematika Limited ("System Science"), a leading reseller of technical software in the United Kingdom and the publisher of the popular System Science catalog. In January 1996, the Company formed ISP\*F International Software Partners France SA ("ISP\*F"), as a full service corporate reseller of PC software, based in Paris and majority-owned by Programmers' Paradise France SARL. The Company is using its European-based operations as a platform for pan-European business development, including the distribution of local versions of its catalogs.

In June, 1996, the Company acquired substantially all of the assets and business of The Software Developer's Company, Inc. ("SDC") related to The Programmer's Supershop ("TPS") catalog, inbound and outbound telemarketing, reseller operations, web site, and all of the operations of its German

subsidiary. SDC had been the Company's largest direct mail competitor, offering a similar array of technical software.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated certain financial information derived from the Company's consolidated statement of operations expressed as a percentage of net sales.

<TABLE>  
<CAPTION>

	Six months ended June 30,		Three months ended June 30,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Sales	84.5	83.5	84.1	82.6
Gross Profit	15.5	16.5	15.9	17.4
Selling, general and administrative expenses	11.1	15.2	11.4	15.0
Amortization expense	0.6	0.1	0.6	0.1
Income from operations	3.8	1.2	3.9	2.3
Interest income, net	0.1	0.5	0.2	0.4
Unrealized foreign exchange loss	(0.1)	-	(0.1)	-
Income before income taxes	3.8	1.7	4.0	2.7
Income taxes	(1.5)	(0.7)	(1.6)	(1.2)
Minority interest	-	0.5	-	0.6
Net income	2.3%	1.5%	2.4%	2.1%

</TABLE>

NET SALES

Net sales of the Company represents the gross consolidated 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 June 30, 1997 increased by \$13,981,000, or 56.0%, to \$39,099,000, over the quarter ended June 30, 1996. Net sales for the six months ended June 30, 1997 increased by \$26,896,000, or 53.0%, to \$78,039,000, over the same period in 1996.

The increase in net sales for the three months and six months ended June 30, 1997 as compared to the same period in 1996 primarily reflects the growth of the Company's catalog and corporate reseller businesses, as well as growth through acquisitions. Consolidated catalog revenues increased by 62.0% or \$7.1 million for the second quarter of 1997, primarily as a result of the acquisition of The Programmer's Supershop in June 1996. Consolidated catalog mailings totaled approximately 1.5 million for the three months ended June 30, 1997, compared to approximately 1.3 million on a pro-forma basis for the same period in 1996. Catalog revenues for the six months ended June 30, 1997 increased approximately 63% or \$14.6 million primarily due to increased catalog drops and the impact of the acquisition of The Programmer's Supershop. Revenues within the reseller channel increased 54% or \$5.5 million for the second quarter of 1997 reflecting market share gains in both France and Germany. Revenues within the distribution channel were up approximately 29% or \$1.0 million in the quarter ended June 30, 1997 which is also primarily the result of the acquisition of The Programmer's Supershop.

Geographically, approximately 52% of the revenues for both the quarter ended June 30, 1997 and the six months ended June 30, 1997 were derived from the European operations.

GROSS PROFIT

Gross profit represents the difference between net sales and

costs of sales. Cost of sales is composed 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 and six-month periods ended June 30, 1997, gross profit as a percentage of sales decreased by 1% and 1.6% respectively over the same periods in 1996 reflecting a shift in the mix of sales through the Company's distribution channels as well the impact of one time commissions earned as a result of managing the operations of The Programmer's Supershop prior to consummation of the acquisition in June, 1996. Gross profit in absolute dollars increased by \$1,828,000 and \$3,683,000, respectively, over the previous year, primarily attributable to the higher revenues across all distribution channels and the impact of the acquisition of The Programmer's Supershop business.

Gross margins have been affected by the mix of products sold and the mix of distribution channels. Historically, the gross margins attained in the catalog channel have been higher than either the corporate reseller or distribution channels. Margins within the corporate reseller channel are also subject to mix variations as Microsoft Select License sales typically produce lower gross margin results.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses include all corporate personnel costs (including salaries and health benefits), depreciation, non-personnel-related marketing and administrative costs and a provision for doubtful accounts. Depreciation consists primarily of equipment depreciation. SG&A expenses as a percentage of revenues have decreased to 11.4% for the quarter and to 11.1% for the six months ended June 30, 1997. The decline in SG&A as a percentage of revenues reflect the economies of scale associated with the increase in revenues from The Programmer's Supershop acquisition, as well as the shift in revenue mix toward corporate reseller. In absolute dollars, SG&A expenses increased by \$695,000 for the three months ended June 30, 1997, and by \$923,000 for the six months then ended when compared to the same period in 1996, reflecting the additional overhead associated with The Programmer's Supershop operations in the U.S., offset by the savings realized by the reorganization of the abnormally high cost structure that was associated with the French subsidiary in 1996.

#### AMORTIZATION EXPENSE

Amortization expense includes the systematic write-off of intangible assets, primarily goodwill. Amortization expense increased by \$197,000 and \$395,000 for the three and six months ended June 30, 1997, compared to the same periods in 1996, reflecting the amortization of the excess of the purchase price over the fair value of the net assets acquired during 1996. The acquisition of substantially all of the net assets of The Programmer's Supershop resulted in goodwill of approximately \$10.0 million which is being amortized over a period of 15 years.

#### INTEREST INCOME AND EXPENSE

Net interest income decreased for the three months and six months ended June 30, 1997 by \$26,000 and \$184,000, respectively, as compared to the same period in 1996, primarily reflecting the use of the Company's funds to acquire substantially all of the assets of The Programmer's Supershop. The Company paid approximately \$11.0 million for the assets of The Programmer's Supershop and in return received approximately \$1.5 million in net assets comprised principally of receivables, inventory, and fixed assets offset by accounts payable. In addition, during the quarter ended June 30, 1997, the Company liquidated its remaining long-term debt of approximately \$1.3 million associated with the acquisition of Systematika Ltd.

Page 9

#### INCOME TAXES

Income tax expense was \$1,178,000 for the six months ended June 30, 1997, compared to \$383,000 in the same period in 1996. This primarily reflects higher tax provisions in the U.S., Germany and in the U.K. resulting from increased earnings at those operations during the six months ended June 30, 1997 in comparison to the same period in the prior year.

#### MINORITY INTEREST

Minority interest represents the share of the operating losses of ISP\*F related to the 49% stock ownership, which was not owned by the Company at March 31, 1996. An additional equity contribution was subsequently funded in October 1996 as part of a reorganization, which resulted in an adjustment in minority ownership to 28%. Because the operating losses for ISP\*F have exceeded minority interest, the Company recognized substantially all of the operating losses through September 30, 1996. For the six months ended June 30, 1997, the cumulative operating losses for ISP\*F have exceeded minority interest, thus no minority interest benefit has been recognized.

## NET INCOME

Net income was \$936,000 or \$.18 per share on approximately 5,314,000 weighted average common shares outstanding for the quarter ended June 30, 1997 compared to \$528,000 or \$.10 per share on approximately 5,144,000 weighted average common shares outstanding for the same period of the previous year. Net income for the six months ended June 30, 1997 was \$1,821,000 or \$.34 per share on approximately 5,281,000 weighted average common shares outstanding versus \$769,000 or \$.15 per share on approximately 5,173,000 weighted average shares outstanding for the six months ended June 30, 1996.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital needs have been to fund the working capital requirements created by its sales growth and to make acquisitions. The Company had cash and cash equivalents of approximately \$9.9 million at June 30, 1997.

Net cash used for operations was approximately \$4,569,000 for the six months ended June 30, 1997 compared with \$9,118,000 of cash used for operating activities in the same period of the previous year. For the first six months of 1997, cash flow was primarily used to reduce accounts payable (approximately \$10.5 million), specifically amounts due to Microsoft by ISP\*D under the Microsoft Select License program, offset by a decrease in accounts receivable (approximately \$4.5 million) as well as an increase in net earnings for the current year period as compared to the same period in the prior year. For 1996, cash flow was primarily used to reduce accounts payable (approximately \$12.9 million), specifically amounts due to Microsoft by ISP\*D under the Microsoft Select License program, offset by decreases in accounts receivable and inventory (approximately \$2.1 million and \$1.0 million, respectively).

Domestically, the Company has a secured, demand revolving line of credit, pursuant to which the Company may borrow up to \$4.0 million, based upon 80% of its eligible accounts receivable plus 50% of its eligible inventory, at a rate of interest of prime plus .50%. The credit facility is secured by all of the domestic assets of the Company and contains certain covenants which require the Company to maintain a minimum level of tangible net worth and working capital. In connection with the System Science acquisition, the Company had utilized approximately \$1.3 million under the line of credit which was converted to a five-year term loan bearing interest at LIBOR plus 2%. During April 1997, the Company liquidated this entire indebtedness.

Page 10

The Company maintains a secured, demand revolving line of credit for its German subsidiary, pursuant to which it may borrow in deutschemarks up to DM 1,500,000 (the equivalent of approximately \$859,000 at June 30, 1997), based upon its eligible accounts receivable and eligible inventory. Such credit facility is secured by ISP\*D's accounts receivable and inventory, and the creditor is entitled to the benefit of a limited guarantee by the Company of up to DM 300,000 (the equivalent of approximately \$172,000 at June 30, 1997). At June 30, 1997, there were no amounts outstanding under such line of credit.

The Company's Italian subsidiary, Lifeboat Italy, maintains banking arrangements with several Italian banks, pursuant to which it may borrow in lire on an unsecured, demand basis to finance its working capital requirements, through credit and overdrafting privileges, as well as receivables-based advances. The aggregate credit and overdraft limits of such arrangements at June 30, 1997 was Lit 3,200,000,000 (the equivalent of approximately \$1.9 million at June 30, 1997). At June 30, 1997, there was approximately Lit 148,000,000 (the equivalent of approximately \$87,000) outstanding under such credit facilities, bearing interest at rates ranging from 7.5% to 9.0%.

The Company's subsidiary in France, ISP\*F, maintains a demand revolving line of credit pursuant to which it may borrow up to FRF 5,000,000 (the equivalent of approximately \$850,000 at June 30, 1997), and is secured by its accounts receivable and inventory and a FRF 3,000,000 letter of credit. At June 30, 1997, approximately FRF 3,660,000 (the equivalent of approximately \$622,000) of the line of credit was utilized, bearing interest at 6.69%.

## PART II - OTHER INFORMATION

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders (the "Meeting") during the fiscal quarter ended June 30, 1997.

(a) The date of the Meeting was June 23, 1997

(b) At the Meeting, the following persons were elected as directors of the Company, each receiving the number of votes set forth opposite their names below:

	For ---	Against -----	Abstain -----
Roger Paradis	4,373,261	6,450	-
Edwin H. Morgens	4,375,361	4,350	-
Daniel S. Bricklin	"	"	-
Alan D. Weingarten	"	"	-
F. Duffield Meyercord	"	"	-
William Willett	"	"	-

(c) At the Meeting, the Stockholders approved and amendment to the Company's 1995 Stock Plan to limit the number of shares available for issuance thereunder to 200,000 shares. The results of the voting was as follows:

For ---	Against -----	Abstain -----	Unvoted -----
4,352,181	15,085	670	11,775

(d) The Stockholders also ratified the selection of Ernst & Young LLP as the independent auditors of the Company. Such ratification was approved as follows:

For ---	Against -----	Abstain -----
4,374,511	5,000	200

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit 27 - Financial Data Schedule

## 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.

August 14, 1997

By: /s/ John P. Broderick

-----  
Date

-----  
John P. Broderick, Chief Financial Officer,  
Vice President of Finance and duly  
authorized officer



EXHIBIT INDEX

Exhibit Number -----	Description of Exhibits -----	Page No. -----
27	Financial Data Schedule	15



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