

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended September 30, 2005

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

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

Commission File No. 000-26408

Programmer's Paradise, Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-3136104
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<u>1157 Shrewsbury Avenue, Shrewsbury, New Jersey 07702</u> (Address of principal executive offices)	
Registrant's Telephone Number <u>(732) 389-8950</u>	

Indicate by check mark whether the registrant; (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 3,994,835 outstanding shares of Common Stock, par value \$.01 per share, as of November 4, 2005, not including 1,289,665 shares classified as treasury stock.

**PART I - FINANCIAL INFORMATION**

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

	September 30, <u>2005</u> (Unaudited)	December 31, <u>2004</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,609	\$ 4,888
Marketable securities	7,911	6,595
Accounts receivable, net	17,586	14,173
Inventory - finished goods	1,263	1,423
Prepaid expenses and other current assets	450	673
Deferred income taxes, current	<u>1,738</u>	<u>1,423</u>
Total current assets	33,557	29,175
Equipment and leasehold improvements, net	442	303
Other assets	465	581
Deferred income taxes, net of current	<u>2,053</u>	<u>2,855</u>
Total assets	<u>\$ 36,517</u>	<u>\$ 32,914</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 19,082	\$ 15,994
Dividend payable	<u>480</u>	<u>425</u>
Total current liabilities	19,562	16,419
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value; authorized, 10,000,000 shares; issued 5,284,500 shares	53	53
Additional paid-in capital	31,468	32,642
Treasury stock, at cost, 1,289,665 shares and 1,418,090 shares, respectively	(3,620)	(4,130)
Accumulated deficit	(11,135)	(12,223)
Accumulated other comprehensive income	<u>189</u>	<u>153</u>
Total stockholders' equity	<u>16,955</u>	<u>16,495</u>
Total liabilities and stockholders' equity	<u>\$ 36,517</u>	<u>\$ 32,914</u>

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

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net sales	\$ 95,692	\$ 72,560	\$ 35,471	\$ 26,788
Cost of sales	<u>85,016</u>	<u>63,677</u>	<u>31,594</u>	<u>23,574</u>
Gross profit	10,676	8,883	3,877	3,214
Selling, general and administrative expenses	<u>9,064</u>	<u>7,359</u>	<u>2,956</u>	<u>2,607</u>
Income from operations	1,612	1,524	921	607
Interest income, net	218	87	79	34
Realized foreign exchange gain (loss)	<u>(14)</u>	<u>4</u>	<u>10</u>	<u>32</u>
Income before income tax provision	1,816	1,615	1,010	673
Provision for income taxes	<u>728</u>	<u>104</u>	<u>407</u>	<u>47</u>
Net income	<u>\$ 1,088</u>	<u>\$ 1,511</u>	<u>\$ 603</u>	<u>\$ 626</u>
Net income per common share - Basic	<u>\$ 0.27</u>	<u>\$ 0.40</u>	<u>\$ 0.15</u>	<u>\$ 0.16</u>
Net income per common share - Diluted	<u>\$ 0.25</u>	<u>\$ 0.37</u>	<u>\$ 0.14</u>	<u>\$ 0.15</u>
Weighted average common shares outstanding-Basic	<u>3,969</u>	<u>3,819</u>	<u>3,994</u>	<u>3,834</u>
Weighted average common shares outstanding-Diluted	<u>4,391</u>	<u>4,071</u>	<u>4,339</u>	<u>4,189</u>
<u>Reconciliation to comprehensive income:</u>				
Net income	\$ 1,088	\$ 1,511	\$ 603	\$ 626
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on marketable securities	14	(22)	8	14
Foreign currency translation adjustments	<u>22</u>	<u>26</u>	<u>55</u>	<u>76</u>
Total comprehensive income	<u>\$ 1,124</u>	<u>\$ 1,515</u>	<u>\$ 666</u>	<u>\$ 716</u>

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

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

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
Balance at January 1, 2005	5,284,500	\$ 53	\$32,642	\$ (4,130)	\$ (12,223)	\$ 153	\$ 16,495
Net income	-	-	-	-	1,088	-	1,088
Exercise of stock options	-	-	-	510	-	-	510
Dividend paid	-	-	(952)	-	-	-	(952)
Dividend declared payable	-	-	(480)	-	-	-	(480)
Translation adjustment	-	-	-	-	-	22	22
Unrealized gain on available-for-sale securities	-	-	-	-	-	14	14
Tax benefit from exercises of non- qualified stock options	--	--	258	--	--	--	258
Balance at September 30, 2005	5,284,500	\$ 53	\$ 31,468	\$ (3,620)	\$ (11,135)	\$ 189	\$ 16,955

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

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

	Nine months Ended	
	September 30,	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income	\$ 1,088	\$ 1,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	187	143
Allowance for doubtful accounts	378	(65)
Tax benefit from exercise of stock options	258	-
Provision for deferred income taxes	487	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,681)	(3,655)
Inventory	160	(368)
Prepaid expenses and other current assets	224	(239)
Accounts payable and accrued expenses	3,088	4,792
Net change in other assets and liabilities	<u>(1)</u>	<u>(262)</u>
Net cash provided by operating activities	<u>2,188</u>	<u>1,857</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities	(11,102)	(3,511)
Redemptions of available-for-sale securities	9,800	1,500
Capital expenditures	(318)	(62)
Net cash used in investing activities	<u>(1,620)</u>	<u>(2,073)</u>
Cash flows from financing activities:		
Dividend paid	(1,379)	(1,179)
Proceeds from exercise of stock options	<u>510</u>	<u>276</u>
Net cash used in financing activities	<u>(869)</u>	<u>(903)</u>
Effect of foreign exchange rate on cash	<u>22</u>	<u>26</u>
Net decrease in cash and cash equivalents	(279)	(1,093)
Cash and cash equivalents at beginning of period	<u>4,888</u>	<u>5,878</u>
Cash and cash equivalents at end of period	<u>\$ 4,609</u>	<u>\$ 4,785</u>

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

**PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**September 30, 2005**  
**(Unaudited)**

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

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

2. Assets and liabilities of the Company's Canadian subsidiary have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the period. The revenue from our Canadian operations in the first nine months of 2005 increased by \$3.4 million to \$11.3 million as compared to the first nine months of 2004. The revenue from our Canadian operations increased by \$1.5 million to \$4.0 million in the third quarter of 2005 as compared to our third quarter of 2004.

3. Cumulative translation adjustments and unrealized gains (losses) on available-for-sale securities have been classified within other comprehensive income, which is a separate component of stockholders' equity in accordance with FASB Statement No. 130, "Reporting Comprehensive Income".

4. The Company records revenues from sales transactions when title to products sold passes to the customer. The Company's shipping terms dictate that the passage of title occurs upon receipt of products by the customer. The majority of the Company's revenues relates to physical products and is recognized on a gross basis with the selling price to the customer recorded as net sales with the acquisition cost of the product to the Company recorded as cost of sales. At the time of sale, the Company also records an estimate for sales returns based on historical experience. Certain software maintenance products, third party services and extended warranties sold by the Company (for which the Company is not the primary obligor) are recognized on a net basis in accordance with SAB 101,

"Revenue Recognition" and EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". Accordingly, such revenues are recognized in net sales either at the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by the Company, with no cost of goods sold. In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs", the Company records freight billed to its customers as net sales and the related freight costs as a cost of sales.

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

5. Investments in available-for-sale securities at September 30, 2005 were (in thousands):

	<u>Cost</u>	<u>Market value</u>	<u>Unrealized Gain (loss)</u>
U.S.. Government Securities	\$ 6,860	\$ 6,867	\$ 7
Corporate Bonds	<u>\$ 1,059</u>	<u>\$ 1,044</u>	<u>\$ (15)</u>
Total Marketable Securities	<u>\$ 7,919</u>	<u>\$ 7,911</u>	<u>\$ (8)</u>

The cost and market value of the Company's investments at September 30, 2005 by contractual maturity were (in thousands):

	<u>Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$7,919	\$7,911

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

	<u>Nine months ended</u>		<u>Three months ended</u>	
	<u>September 30,</u>		<u>September 30</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Numerator:				
Net income	\$1,088	\$1,511	\$ 603	\$ 626
Denominator:				
Weighted average shares (Basic)	3,969	3,819	3,994	3,834
Dilutive effect of outstanding options	<u>422</u>	<u>252</u>	<u>345</u>	<u>355</u>
Weighted average shares including assumed conversions (Diluted)	4,391	4,071	4,339	4,189
Basic net income per share	\$ 0.27	\$ 0.40	\$ 0.15	\$ 0.16
Diluted net income per share	\$ 0.25	\$ 0.37	\$ 0.14	\$ 0.15

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

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2005	967,220	\$ 5.71
Granted in 2005	60,640	12.85
Canceled in 2005	<u>(6,545)</u>	3.36
Exercised in 2005	<u>(128,425)</u>	3.97
Outstanding at September 30, 2005	<u>892,890</u>	6.46
Exercisable at September 30, 2005	<u>884,677</u>	6.50

On April 21, 2005, the Company granted 60,640 options at an option price of \$12.85 to officers and directors of the Company. The options granted vested immediately. The Company granted options to purchase 14,320 shares to William H. Willett, the Company's President and Chief Executive Officer; options to purchase 14,320 shares to Simon Nynens, the Company's Executive Vice President and Chief Financial Officer; options to purchase 5,000 shares to Jeffrey Largiader, the Company's Vice President Sales and Marketing, options to purchase 5,000 shares to Vito Legrottaglie, the Company's Vice President and Chief Information Officer, options to purchase 5,000 shares to Dan Jamieson, Vice President and General Manager of the Company's Lifeboat division, and options to purchase 5,000 shares to Steve McNamara, the Vice President and General Manager of Programmer's Paradise Canada. Each director of the Company received options to purchase 3,000 shares of the Company's Common Stock at an option price of \$12.85 per share.

7. On August 25, 2005 our Board of Directors declared a quarterly dividend of \$.12 per share on our common stock payable October 21, 2005 to shareholders of record on September 30, 2005. Our Board intends to periodically review the amount and frequency of future payments, if any, in light of the Company's operations and need for capital. The dividend is reflected as a reduction of Additional Paid in Capital.

8. The Company had one major customer that accounted for 13.9% and 14.5% of total net sales during the nine and three months ended September 30, 2005, respectively, and 6.1% of total net accounts receivable as of September 30, 2005. The Company had two major vendors that accounted for 18.6% and 32.8% of total purchases during the nine months ended September 30, 2005 and 14.9% and 36.4%, respectively, for the three months then ended. The Company had one major customer that accounted for 13.6% and 13.1% of total net sales during the nine and three months ended September 30, 2004, respectively, and 4.9% of total net accounts receivable as of September 30, 2004. The Company had two major vendors that accounted for 26.5% and 20.3% of total purchases during the nine months ended September 30, 2004 and 22.3% and 24.5%, respectively, for the three months then ended.

9. For the quarter ended September 30, 2005, the Company recorded a provision for income taxes of \$407,000, which consists of a provision of \$317,000 for deferred income taxes as well as a \$66,000 provision for U.S. state taxes and a provision of \$24,000 for Canadian taxes. For the quarter ended September 30, 2004, the Company recorded a provision of \$47,000 which consists of a provision of \$26,000 for Canadian taxes as well as a \$21,000 provision for U.S. state taxes. For the nine months ended September 30, 2005 the Company recorded a provision for income taxes of \$728,000, which consists of a provision of \$210,000 for U.S. income taxes as well as a provision of \$487,000 for



deferred income taxes and a \$100,000 provision for state income taxes offset by a benefit of \$69,000 for Canadian taxes. For the nine month period ended September 30, 2004, the Company recorded a provision for income taxes of \$104,000, which consists of a provision of \$13,000 for U.S. Federal taxes, \$63,000 for U.S.. State taxes, and \$28,000 for foreign taxes.

As of September 30, 2005, the Company had a U.S.. deferred tax asset of approximately \$4.6 million reflecting, in part, a benefit of \$2.0 million in U.S.. federal and state tax loss carry forwards, which will expire in varying amounts between 2005 and 2024. The full realization of the tax benefit associated with the carry forward depends predominantly upon the Company's ability to generate taxable income during the carry forward period. The Company believes that uncertainty still exists regarding the realization of certain deferred tax assets, and accordingly, continues to maintain a \$0.9 million valuation allowance based on management's estimates against these specific deferred tax assets. The valuation allowance will be evaluated at the end of each reporting period, considering positive and negative evidence about whether the deferred tax asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

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

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

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net income - as reported	\$ 1,088	\$ 1,511	\$ 603	\$ 626
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>\$ (290)</u>	<u>\$(1,113)</u>	<u>\$ 0</u>	<u>0</u>
Pro forma net income	<u>\$ 798</u>	<u>\$ 398</u>	<u>\$ 603</u>	<u>\$ 626</u>
Net income per share:				
Basic earnings per share - as reported	<u>\$ 0.27</u>	<u>\$ 0.40</u>	<u>\$ 0.15</u>	<u>\$ 0.16</u>
Basic earnings per share - pro forma	<u>\$ 0.20</u>	<u>\$ 0.10</u>	<u>\$ 0.15</u>	<u>\$ 0.16</u>
Net income per share:				
Diluted earnings per share - as reported	<u>\$ 0.25</u>	<u>\$ 0.37</u>	<u>\$ 0.14</u>	<u>\$ 0.15</u>
Diluted earnings per share - pro forma	<u>\$ 0.18</u>	<u>\$ 0.10</u>	<u>\$ 0.14</u>	<u>\$ 0.15</u>

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

12. The company incurred a charge of \$ 0.3 million in the second quarter of 2005 related to the accounts receivable from Amherst Technologies, LLC. On July 28, 2005 we determined that these accounts receivable are substantially impaired after Amherst Technologies, LLC filed for bankruptcy protection on July 20, 2005. The Company intends to pursue all potential recovery options.

13. Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Certain Factors Affecting Operating Results" and elsewhere in this report. The following discussion should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2004.

### **Overview**

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

We offer a wide variety of technical and general business application software and PC hardware and components from a broad range of publishers and manufacturers. We market our products through our catalogs, direct mail programs and advertisements in trade magazines as well as through Internet and e-mail promotions. Through our wholly owned subsidiary, Lifeboat Distribution Inc., we distribute marketed products to dealers and resellers in the United States and Canada.

The Company's sales and results of operations have fluctuated and are expected to continue to fluctuate on a quarterly basis as a result of a number of factors, including: the condition of the software industry in general; shifts in demand for software products; industry shipments of new software products or upgrades; the timing of new merchandise and catalog offerings; fluctuations in response rates; fluctuations in postage, paper, shipping and printing costs and in merchandise returns; adverse weather

conditions that affect response, distribution or shipping; shifts in the timing of holidays; and changes in the Company's product offerings. The Company's operating expenditures are based on sales forecasts. If revenues do not meet expectations in any given quarter, operating results may be materially adversely affected.

### Results of Operations

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

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	<u>88.8</u>	<u>87.8</u>	<u>89.1</u>	<u>88.0</u>
Gross profit	11.2	12.2	10.9	12.0
Selling, general and administrative expenses	<u>9.5</u>	<u>10.1</u>	<u>8.3</u>	<u>9.7</u>
Income from operations	1.7	2.1	2.6	2.3
Interest income, net	0.2	0.1	0.2	0.1
Realized foreign exchange gain(loss)	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>
Income before income taxes	1.9	2.2	2.8	2.5
Provision for income taxes	<u>0.8</u>	<u>0.1</u>	<u>1.1</u>	<u>0.2</u>
Net income	<u>1.1%</u>	<u>2.1%</u>	<u>1.7%</u>	<u>2.3%</u>

### Net Sales

Net sales in the third quarter of 2005 increased 32% or \$8.7 million to \$35.5 million compared to \$26.8 million for the same period in 2004. For the nine month period ended September 30, 2005, net sales increased by \$23.1 million or 32% compared to the nine month period ended September 30, 2004. We attribute this growth in net sales primarily due to a strong demand for our core products which resulted in increased productivity of our account executive team in the third quarter of 2005.

### Gross Profit

Gross profit as a percentage of net sales was 10.9% for the quarter ended September 30, 2005, compared to 12.0% for the same period in 2004. Since revenue increased by 32%, gross profit in absolute dollars increased \$0.7 million to \$3.9 million as compared to \$3.2 million in the third quarter of 2004. For the nine month period ended September 30, 2005, gross profit in absolute dollars increased \$1.8 million to \$10.7 million compared to \$8.9 million in the same period in 2004.

The increase in gross profit dollars and the decrease in gross profit margins as a percentage of net sales reflects the competitive nature of our business.

On a forward-looking basis, gross profit margin in future periods may be less than the 10.9% achieved in the third quarter of 2005. Changes in rebate programs can significantly affect our gross margin percentage. The gross profit margin depends on various factors, including vendor incentive and inventory price protection programs, product mix, including third party services, pricing strategies, market conditions, and other factors, any of which could result in changes in gross margins from recent experience.

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

Selling, General and Administrative ("SG&A") expenses for the quarter ended September 30, 2005 were \$3.0 million as compared to \$2.6 million for the same period in 2004, an increase of \$0.4 million or 13%. The primary drivers in SG&A expenses in the third quarter of 2005 were payroll and employee related costs. Compared to the third quarter of 2004, payroll costs increased \$0.3 million, primarily due to our continued investment in our sales force. Our sales force consists of account executives as well as vendor specialists who provide consultation in areas requiring specialized product expertise. Employee related costs (which includes items such as commission, fringe benefits, profit sharing and incentive awards) increased by \$0.1 million, primarily a result of our increase in revenue and margin.

For the nine month period ended September 30, 2005 SG&A expenses increased by \$ 1.7 million or 23% compared to the same period in 2004. The primary drivers in SG&A expenses in the first nine months of 2005 were payroll and employee related costs. Compared to the first nine months of 2004, payroll costs increased by \$1.1 million and employee related costs increased by \$0.3 million. Other SG&A costs increased by \$0.4 million of which \$0.3 million relates to increased facilities expenses and also includes a charge of \$0.1 million related to accounts receivable.

We plan to continue to invest in our sales force. 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.

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

The realized foreign exchange gain for the quarter ended September 30, 2005 was \$10,000 compared to a gain of \$32,000 for the same period in 2004. For the nine months ended September 30, 2005 the realized foreign exchange loss was \$14,000 compared to a foreign exchange gain of \$4,000 for the same period last year. Foreign exchange gains and losses primarily result from our trade activity with our Canadian subsidiary. Although the Company does maintain bank accounts in Canadian currencies to reduce currency exchange fluctuations, the Company is, nevertheless, subject to risks associated with such fluctuations.

### **Income Taxes**

For the quarter ended September 30, 2005, the Company recorded a provision for income taxes of \$407,000, which consists of a provision of \$317,000 for deferred income taxes as well as a \$66,000 provision for U.S. state taxes and a provision of \$24,000 for Canadian taxes. For the quarter ended

September 30, 2004, the Company recorded a provision of \$47,000 which consists of a provision of \$26,000 for Canadian taxes as well as a \$21,000 provision for U.S. state taxes. For the nine months ended September 30, 2005 the Company recorded a provision for income taxes of \$728,000, which consists of a provision of \$210,000 for U.S. income taxes as well as a provision of \$487,000 for deferred income taxes and a \$100,000 provision for state income taxes offset by a benefit of \$69,000 for Canadian taxes. For the nine month period ended September 30, 2004, the Company recorded a provision for income taxes of \$104,000, which consists of a provision of \$13,000 for U.S. Federal taxes, \$63,000 for U.S. State taxes, and \$28,000 for foreign taxes.

As of September 30, 2005, the Company had a U.S. deferred tax asset of approximately \$4.6 million reflecting, in part, a benefit of \$2.0 million in U.S. federal and state tax loss carry forwards, which will expire in varying amounts between 2005 and 2024. The full realization of the tax benefit associated with the carry forward depends predominantly upon the Company's ability to generate taxable income during the carry forward period. The Company believes that uncertainty still exists regarding the realization of certain deferred tax assets, and accordingly, continues to maintain a \$0.9 million valuation allowance based on management's estimates against these specific deferred tax assets. The valuation allowance will be evaluated at the end of each reporting period, considering positive and negative evidence about whether the deferred tax asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required.

### **Liquidity and Capital Resources**

During the first nine months of 2005, our cash and cash equivalents decreased by \$0.3 million to \$4.6 million at September 30, 2005, from \$4.9 million at December 31, 2004. Net cash provided by operating activities amounted to \$2.2 million; net cash used in investing activities amounted to \$1.6 million and net cash used in financing activities amounted to \$0.9 million.

Net cash provided by operating activities in the first nine months of 2005 was \$2.2 million and primarily resulted from our income from operations excluding non-cash charges of \$2.4 million and a \$3.1 million increase in accounts payable and accrued expense and a decrease of \$0.4 million in other current assets. This was partly offset by a \$3.7 million increase in accounts receivable. The increase in account receivable and account payable and accrued expenses is primarily related to our increase in revenue.

Net cash used in investing activities in the first nine months of 2005 amounted to \$1.6 million. In light of the current low interest rates on our short-term savings accounts we decided to invest an additional net \$1.3 million in U.S. government securities. These securities are highly rated and highly liquid. These securities are classified as available-for-sale securities in accordance with SFAS 115, and as a result unrealized gains and losses are reported as part of other comprehensive income (loss). The other \$0.3 million consisted of capital expenditures.

Net cash used for financing activities in the first nine months of 2005 of \$0.9 million consisted of the \$1.4 million payment of our declared dividends, which was partly offset by the proceeds from the exercise of options of \$0.5 million.

On September 16, 2002, our Board of Directors authorized the purchase of 500,000 shares of our common stock. On October 9, 2002, our Board of Directors authorized us to purchase an additional

500,000 shares of our common stock. These two purchase approvals are in addition to authorizations for us to purchase 490,000 shares (granted in March 2002) and 521,013 shares (granted in October 1999) in both open market and private transactions, as conditions warrant.

The repurchase program is expected to remain effective for the remainder of 2005. We intend to hold the repurchased shares in treasury for general corporate purposes, including issuances under various stock option plans. As of September 30, 2005, we owned 1,289,665 shares of our common stock purchased at an average cost of \$3.18 per share. During the first nine months of 2005, we did not repurchase any shares of our common stock.

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

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

Contractual Obligations as of September 30, 2005 were summarized as follows:

(Dollars in thousands)

	Payment due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	-	-	-	-	-
Capital Lease Obligations	-	-	-	-	-
Operating Leases	\$ 1,263	\$ 574	\$ 644	\$ 45	-
Purchase Obligations	-	-	-	-	-
Other Long term Obligations	-	-	-	-	-
Total Contractual Obligations	\$ 1,263	\$ 574	\$ 644	\$ 45	-

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

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

As of September 30, 2005, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

## Critical Accounting Policies and Estimates

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

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

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

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

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

The Company believes the following critical accounting policies used in the preparation of its consolidated financial statements affect its more significant judgments and estimates. The Company maintains allowances for doubtful accounts for estimated losses resulting from the

inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required.

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

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

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

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

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

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



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

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

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

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

The Company's \$7.9 million investments in marketable securities are only in highly rated and highly liquid corporate bonds and U.S. government Securities. As such, the risk of significant changes in the value of our cash invested is minimal.

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

*Evaluation of Disclosure Controls and Procedures.* As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" as of September 30, 2005. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2005. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

*Changes in Internal Control Over Financial Reporting.* As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter ended September 30, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation during the quarter ended September 30, 2005 there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As an "non-accelerated filer", the Company will be required by the Sarbanes-Oxley Act of 2002, as amended, to include an assessment of its internal control over financial reporting and attestation from an independent registered public accounting firm in its annual report on Form 10-K covering the year ended December 31, 2007.

**PART II - OTHER INFORMATION**

**Item 6. Exhibits**

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

**SIGNATURES**

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

PROGRAMMER'S PARADISE, INC.

November 9, 2005	By: <u>/s/ Simon F. Nynens</u>
Date	Simon F. Nynens, Executive Vice President and Chief Financial Officer
November 9, 2005	By: <u>/s/ William H. Willett</u>
Date	William H. Willett, Chairman of the Board, President and Chief Executive Officer

**CERTIFICATION**

I, William H. Willett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Programmer's Paradise, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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 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 upon 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 officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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: November 9, 2005
/s/ William H. Willett William H. Willett Chief Executive Officer

**CERTIFICATION**

I, Simon F. Nynens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Programmer's Paradise, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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 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 upon 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 officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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: November 9, 2005
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<i>/s/ Simon F. Nynens</i>
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Simon F. Nynens Executive Vice President and Chief Financial Officer
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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Programmer's Paradise, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005 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. Section 1350, as adopted pursuant to Section 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.

/s/ William H. Willett
William H. Willett Chief Executive Officer November 9, 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 2002

In connection with the Quarterly Report of Programmer's Paradise, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2005 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. Section 1350, as adopted pursuant to Section 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.

/s/ Simon F. Nynens
Simon F. Nynens Executive Vice President and Chief Financial Officer November 9, 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.*