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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934 (FEE REQUIRED) For the fiscal year ended December 31, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

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

Commission file number: 33-92810

PROGRAMMER'S PARADISE, INC.  
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(Exact name of registrant as specified in its charter)

Delaware 13-3136104  
(State or other jurisdiction (IRS Employer  
of incorporation) Identification Number)

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

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

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

Securities registered pursuant to section 12(g) of the Act: Common Stock, par  
value \$0.01 per share  
(Title Of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to  
Item 405 of Regulation S-K is not contained herein, and will not be contained,  
to the best of registrant's knowledge, in definitive proxy or other information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates  
of the Registrant computed by reference to the closing sales price for the  
Registrant's Common Stock on March 18, 1999, as reported on the NASDAQ National  
Market, was approximately \$44,140,457.

The number of shares outstanding of the Registrant's Common Stock as of  
March 18, 1999: 5,141,386 shares.

In determining the market value of the voting stock held by any  
non-affiliates, shares of Common Stock of the Registrant beneficially owned by  
directors, officers and holders of more than 10% of the outstanding shares of  
Common Stock of the Registrant have been excluded. This determination of  
affiliate status is not necessarily a conclusive determination for other  
purposes.

Documents Incorporated by Reference: Portions of the Registrant's  
definitive Proxy Statement for its Annual Meeting of Stockholders scheduled to  
be held on June 17, 1999 are incorporated by reference into Part III of this  
Report.

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PART I

ITEM 1 BUSINESS.

GENERAL

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 North America and Europe - internet,  
catalog, direct sales, telemarketing, and wholesale distribution. Internet sales  
encompass the Company's international web sites. Catalog operations include

worldwide catalog sales, advertising and publishing. Direct sales operations include Programmer's Paradise Corporate Sales in the United States, ISP\*D International Software Partners GmbH ("ISP\*D"), a wholly owned subsidiary in Munich, Germany, ISP\*F International Software Partners France SA ("ISP\*F"), a majority owned subsidiary in Paris, France, and Logicsoft Holding BV ("Logicsoft"), a wholly owned subsidiary located in Amsterdam, The Netherlands. Telemarketing operations are presently conducted in the United States, Germany and the United Kingdom. Wholesale operations include distribution to dealers and large resellers through Lifeboat Distribution Inc. in the United States and Lifeboat Associates Italia Srl ("Lifeboat Italy") in Milan, Italy, also subsidiaries of the Company.

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 Programmer's Supershop 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 expand revenues and income by assisting companies manage their IT expenditures, a value-added selling approach.

Through its multiple distribution channels, the Company now offers more than 40,000 SKUs, consisting of technical and general business application software and PC hardware and components from more than 2,000 publishers and manufacturers, at prices generally discounted below manufacturers' suggested retail prices. The Company's catalogs are full color "magalogs", and offer one of the most complete collections of microcomputer technical software, including programming languages, tools, utilities, libraries, development systems, interfaces and communication products. The Company has created a niche for hard to source technical software programs and has demonstrated an ongoing capability to search and obtain titles requested by its customer base. The Company believes that its catalogs are important marketing vehicles for software publishers and manufacturers and that they provide a cost-effective and service oriented means to market, sell and fulfill technical software products. The Company utilizes its proprietary and brand-distinctive logo, the "Island Man" cartoon character on its flagship Programmer's Paradise catalog. In 1998, the Company distributed over 8.7 million catalogs and plans to increase that amount to approximately 10 million catalogs or 1.1 billion pages in 1999. Catalog operations, which have historically had the highest gross margins of all the Company's distribution channels, contributed 28% of its revenue and 44% of gross margin in 1998.

International expansion has been an integral part of the Company's strategy, with its European-based operations accounting for approximately 70% of sales in the year ended December 31, 1998, and approximately 60% of gross margin for the same period. The Company began European-based operations in the first quarter of 1993 when it acquired a controlling interest in Lifeboat Associates Italia Srl, a long-standing software wholesale distributor in Italy with an orientation towards technical software. In June 1994, the Company acquired a controlling interest in ISP\*D International Software Partners GmbH, 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 Ltd., 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, as a full service corporate reseller of PC software, based in Paris and majority-owned by Programmer's Paradise France SARL. In August 1997, the Company formed Programmer's Paradise, Canada Inc. located in Mississauga, Ontario, to serve the growing developer market in Canada. In September 1997, the Company acquired Logicsoft Holding BV, the parent company of Logicsoft Europe BV, the largest software-only corporate reseller of PC software in The Netherlands. The Company estimates that it now holds the lead position in over 40% of the European software market.

Programmer's Paradise, Inc. was incorporated under the laws of the State of Delaware in 1982. The Company's principal executive offices are located at 1157 Shrewsbury Avenue, Shrewsbury, New Jersey 07702 and its telephone number is (732) 389-8950. Website addresses are [www.pparadise.com](http://www.pparadise.com) and [www.supershops.com](http://www.supershops.com). Information contained on our web sites is not, and should not be deemed to be, a part of this report.

#### INDUSTRY BACKGROUND

According to industry data published in May of 1998, worldwide software

sales reached \$118.6 billion in 1997 and such sales are projected to reach \$231.7 billion in 2002, representing a compound annual growth rate of 14.3%. Software expenditures with the Windows NT platform in 1997 accounted for 22.2% of total software expenditures. This particular operating platform is expected to grow to 42.6% of total expenditures by 2002. Expressed in dollars, expenditures for software operating on the NT platform should grow from \$26.5 billion in 1997 to \$98.4 billion in 2002, an increase of 371% during the period. The Company believes that it is in a position to participate heavily in this market as most of its customers are either presently utilizing the NT operating platform or, are contemplating conversion to it.

#### INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in one principal industry segment across geographically diverse marketplaces. Information regarding financial data by geographic area and amounts of total revenue for each class of similar products or services that represents 10 percent or more of total revenue is set forth in Part II, Item 8 of this Form 10-K at Note 10, "Industry Segment and Geographic Information."

#### PRODUCTS

The Company offers over 40,000 stock keeping units, or SKUs from more than 2,000 publishers and manufacturers including Microsoft, Sybase, Borland, IBM, Symantec, Blue Sky Software and NuMega Technologies, at prices generally discounted below manufacturer's suggested retail prices. The Company screens new products and selects products for inclusion in its catalogs based on features, quality, sales trends, price, margins and warranties.

Software upgrades are a significant category of product offered by the Company. The Company is authorized by most major microcomputer technical software publishers to stock upgrades. Upgrades are revisions to previously published software that improve or enhance certain features of the software or correct errors found in previous versions. The Company believes it offers several advantages to its customers in the upgrade process, including timely and reliable service and the ability to combine upgrades with other products on the same order. The Company has demonstrated its expertise in new product roll-outs and product upgrades, and plans to leverage these past experiences with vendors contemplating new or upgrade product introductions.

#### MARKETING AND SALES

The Company operates principally through five distribution channels; Internet, catalog, direct sales, wholesale distribution and telemarketing. Management believes that this diversification of distribution channels is complementary and operationally cost effective. Further, due to the volume of purchasing by the Company, and also due to the unique magazine/catalog format of the Company's catalogs, the Company believes it is able to obtain favorable pricing, prompt supply of upgrades and significant marketing funds.

Telemarketing and Technical Support. The Company employs sales representatives who assist customers in purchasing decisions, process product orders and respond to customer inquiries on order status, product pricing and availability. The sales representatives are trained to answer all basic questions about products. On technical issues, there is an in-house technical support staff, which is able to respond to most inquiries over the phone, with the balance researched off-line. The Company has recently introduced a real-time customer service and technical support module on its web site. This new technology enables customers greater access to order status, frequently asked questions and on-line technical support issues.

Customers and Backlog. No customer accounted for more than 10% of consolidated net sales in 1998 and 1997 and no material part of the business is dependent upon a single customer or a few customers, the loss of any one or more of which would have a materially adverse effect on the Company. Because the Company generally ships products within 48 hours of receipt of an order from a customer, backlog is not material to an understanding of its business.

#### INTERNET

The Company conducts business via the Internet through its two domestic websites: [www.pparadise.com](http://www.pparadise.com), and [www.supershops.com](http://www.supershops.com), and foreign Websites. Each of the foreign Websites is linked to each other as well as the domestic site and each is capable of electronic commerce. The Company recently launched a newly enhanced domestic Webstore and increased its product offerings from 3,500 SKUs to over 40,000 SKUs including a wide selection of hardware, training and reference products. The Company's strategy with respect to expanding its e-commerce revenues is to capitalize on its established brand and imaging with its proprietary "Island Man" cartoon by utilizing the depth of its catalog distribution. In 1999, the Company plans to print and distribute more than 1.1 billion pages of product listings and ads as banner advertising for its e-commerce sites. In addition, the Company has elected to partner with several content-only Websites as well as several key software publishers and to establish on-line specialty stores. As of December 31, 1998, the Company had

entered into agreements for seven specialty stores and expects to double that amount during 1999. The Company also began electronic delivery of software in July 1996 and presently has over 200 individual titles available for download. The Company will continue to develop these capabilities even though the percentage of business being conducted via this method is very low.

Electronic Services and Capabilities. The Company offers a number of services and is, on an on-going basis, implementing new and enhanced systems to support its customers' migration toward electronic commerce and electronic software distribution ("ESD").

ESD takes two forms; the first is distributing software within an organization, via a company's internal network. ESD technology within a large organization is a means to permit an organization to reduce the total cost of ownership of desktop computing assets. ESD can provide hardware and software asset management, remote desktop support and automatic installation of packaged and custom software to the desktop.

The second form of ESD is between businesses via electronic links such as the Internet. This form of ESD supports the fast, convenient delivery of software products. The Company is engaged in this method of distribution mainly through Cybersource, a third party supplier.

The Company's Web sites contain an on-line catalog of thousands of products that can be purchased over the Internet. The Internet catalog provides information about products through a comprehensive search engine, extensive product descriptions and third-party reviews. For certain large customers, the Company offers a customer-specific, secure catalog available over the Internet. Each specialized electronic catalog contains specific products and pricing unique to that customer as well as information particular to the volume license and maintenance agreements in which that customer is enrolled.

#### CATALOG OPERATIONS

The Company has two primary established catalogs- Programmer's Paradise, directed at independent programming professionals, and The Programmer's Supershop, directed at programmers in large corporations. These catalogs are full color "magalogs" which combine traditional catalog sales offerings with detailed product descriptions, product announcements and contain substantial amounts of paid and cooperative advertising. The Programmer's Paradise catalog features the Company's distinctive "Island Man" cartoon character and is recognized as a leading source for technical software in the United States. In 1998, the Company distributed over 8.7 million catalogs, typically featuring more than 1,300 SKUs in its larger catalogs.

In addition to its two flagship catalogs, the Company offers two additional catalogs - Components Paradise, which is directed to the Visual Basic add-on marketplace, and its newest segmented catalog - Enterprise Supershop (formally called NT Supershop), which is directed to the IT professional working with the NT operating platform. In September 1997 the Company launched Programmer's Paradise, Canada to support the growing Canadian developer market.

The Company creates its domestic catalogs in-house with its own design team and production artists using a computer-based desktop publishing system. The in-house preparation of the catalogs streamlines the production process, provides greater flexibility and creativity in catalog production and results in significant cost savings.

The Company continuously attracts new customers by selectively mailing catalogs and other direct mail materials to prospective customers, as well as through advertising in magazines and trade journals. The Company's domestic mailing list currently consists of core Programmer's Paradise and Programmer's Supershop buyer list of approximately 150,000 customers who have purchased products from the Company within the 24 months ended December 31, 1998, plus selected names from the Company's prospect list, lists of names provided by publishers and list of names rented from others.

In conjunction with the Programmers Supershop and recently introduced Enterprise Supershop catalogs, the Company has energized and supported an outbound telemarketing program as part of its domestic catalog operations. This telemarketing program targets mid-size to large commercial, governmental and educational accounts in the United States.

The Company seeks to have these catalogs reach a similar status in Europe. The Company's European catalogs ( Programmer's Paradise Italia, Programmer's Paradise Deutschland, Software Paradise Deutschland, Programmer's Paradise France, Programmer's Paradise U.K. and Programmer's Paradise - The Netherlands) are offshoots of the U.S. versions. They are published in local languages and present offerings in local currencies, while using similar but localized cover graphics, including the Company's proprietary logo, the "Island Man" cartoon character. The Company also distributes the popular System Science catalog in the United Kingdom. This catalog has long been established as one of the pre-eminent publications for programmers in the U.K. and is produced four

times per year.

Upstream Marketing to Suppliers. The Company engages in upstream marketing to its suppliers who are software publishers by providing important services designed to enhance such supplier's ability

to market its products in the programmer and developer marketplace. The Company believes that its advertising and other supplier-directed marketing activities maximize the Company's marketing reach and build relationships with leading publishers. The Company offers a menu of fee services to help its suppliers sell products, including cooperative space advertising, banner advertising on its web sites, trade show support, special publisher catalogs, demonstration disks, shipment stuffers, telephone sold-on-hold advertising and a variety of custom direct mail services. As part of these services, the Company works closely with suppliers' personnel on the timing and nature of new product introductions and policies, helps build product awareness, conducts marketing programs to selected users on behalf of publishers and provides a broad range of product support.

Cooperative and Fee-Based Advertising. The Company engages in cooperative and fee-based advertising with software publishers in accordance with written advertising insertion order agreements. Under these agreements, the Company places advertisements or prints catalogs that feature publisher products at discounted prices from retail, advertising allowances and rebates. Frequently, the Programmer's Paradise logo and telephone number are included in the promotion of selected publishers and incoming calls are handled by Company representatives. In addition, the Company often coordinates its catalog distribution and other marketing initiatives to coincide with new product releases. Many suppliers also provide funds to the Company based upon an agreed amount of coverage given in the catalogs for their respective products, thereby financing the cost of catalog publication and distribution. In 1998, the Company's cooperative and fee-based advertising reimbursements totaled less than 11% of total product revenues in the Company's domestic operations, and significantly smaller percentages in the European operations.

#### DIRECT SALES

Direct sales are primarily conducted in Europe through the Company's subsidiaries. The direct sales channel offers flexible software acquisition, volume software licensing, and maintenance options specially customized to meet the needs of mid-size to large commercial, governmental and educational accounts.

The Company serves as a designated services provider for volume licensing and maintenance ("VLM") agreements between many of its European customers and major publishers of personal computer software. VLM agreements are typically used by customers seeking to standardize desktop software applications and, consequently, typically involve significant quantities of unit sales for each customer. Under VLM agreements, the Company acts as a designated service provider to sell software licensing rights that permit customers to make copies of a publisher's software program from a master disk and distribute this software within a customer's organization for a fee for each copy made. Maintenance agreements entitle customers to all upgrades of certain products during a specified period of time, typically two years following the software purchase. Although unit volume sales are increased by the use of VLM agreements, generally lower gross margins are realized on such sales as compared to sales of full-packaged software products. The Company has been designated by Microsoft as an Authorized Reseller for its Select Licensing Program. Appointment of "Select" status in the United States enhances the Company's ability to develop the business to business market while servicing customers that have international licensing needs.

The Company's experienced sales force, each member of which is assigned a specific territory, has built relationships with corporate customers through regular phone contact and personalized service. Account executives work directly with procurement managers, management information system managers and computer support managers of existing and potential customers to identify the specific needs of each customer and to facilitate the acquisition of software within the customer's organizational framework. The Company's licensing consultants can assist customers in selecting the most advantageous form of licensing available based on specific needs or constraints. They also maintain close

contact with customers in order to provide them with timely communications and assistance with any special or strategic requests.

#### WHOLESALE OPERATIONS

Wholesale operations include distribution to dealers and large resellers through Lifeboat Distribution Inc. in the United States ("Lifeboat") and Lifeboat Italy, also subsidiaries of the Company. Through Lifeboat and Lifeboat Italy the Company concentrates on marketing and the reselling of programming tools and other quality technical computing product lines. Lifeboat

customers consist of corporate resellers, value added resellers (VAR's), consultants, system integrators and retailers who have an interest in servicing the software development and other high tech communities.

The U.S. customers include corporate resellers such as Software Spectrum, Corporate Software, ASAP Software and Software House International. Major product lines include CompuWare-Numega, Platinum-LogicWorks, Premia, Blue Sky Software, Apex, Sheridan, NetManage and Wolfram. In addition, Lifeboat Italy wholesales productivity software.

#### TELEMARKETING

Telemarketing operations are presently conducted in the United States, Germany, The Netherlands and the United Kingdom. The Company employs sales representatives who assist customers in purchasing decisions, process product orders and respond to customer inquiries on order status, product pricing and availability. The sales representatives are trained to answer all basic questions about products. On technical issues, there is an in-house technical support staff, which is able to respond to most inquiries over the phone, with the balance researched off-line. For product literature and technical fact sheets, the Company employs its fax on demand literature service supported by a CD-ROM-based reference library. Through the Company's domestic information systems, a sales representative can quickly access a customer's record, which details past purchases as well as billing information. Similar capabilities exist in the Company's international operations.

Domestically, the Company has directed resources and expanded infrastructure designed to expand its corporate telemarketing operations. The Company believes that this channel is a natural outgrowth from the corporate influence of certain of its catalogs.

#### PURCHASING AND FULFILLMENT

The Company's success is, in part, dependent upon the ability of its suppliers to develop and market products that meet the changing requirements of the marketplace. The Company believes it enjoys good relations with its vendors. The Company and its principal vendors have cooperated frequently in product introductions and other marketing programs. In addition, the Company typically receives price protection should a vendor subsequently lower its price. As is customary in the industry, the Company has no long-term supply contracts with any of its suppliers. Substantially all the Company's contracts with its vendors are terminable upon 30 days' notice or less.

The Company believes that effective purchasing is a key element of its business strategy to provide technical software at competitive prices. The Company believes that volume purchases enable it to obtain favorable and competitive product pricing. The Company purchases products from more than 1,000 publishers. Domestically, in 1998 the Company purchased approximately 56% of its products directly from manufacturers and publishers and the balance from two distributors - Ingram and Merisel. Internationally, in 1998 the Company's foreign subsidiaries purchased approximately 61% of its products directly from manufacturers and publishers. The largest volume of purchases by the Company from distributors was from Ingram, representing approximately 13% of worldwide purchases in 1998. The Company believes it can purchase substantially all products purchased from Ingram from other competing

wholesalers under similar terms. Management estimates that during 1998 approximately 54% of worldwide revenues of the Company were derived from products published by Microsoft.

The Company attempts to manage its inventory position to generate a high number of inventory turns consistent with achieving high product availability and order fill rates. Inventory levels may vary from period to period, due in part to increases or decreases in sales levels, the Company's practice of making large-volume purchases when it deems the terms of such purchases to be attractive, and the addition of new suppliers and products. Moreover, the Company's order fulfillment and inventory control allow the Company to order certain products just in time for next day shipping. The Company promotes the use of electronic data interchange ("EDI") with its suppliers, which helps reduce overhead and the use of paper in the ordering process. All inventory items in the U.S. are bar coded and located in computer designated areas which are easily identified on the packing slip. All such orders are checked with bar code scanners prior to packing to ensure that each order is filled correctly. The Company also conducts a quarterly physical inventory to verify its inventory levels on a timely basis.

Additionally, some suppliers or distributors will "drop ship" products directly to the customers, which reduces physical handling by the Company. These inventory management techniques allow the Company to offer a greater range of products without increased inventory requirements. Generally, the Company has been able to return unsold or obsolete inventory within specified intervals of the purchase date to its vendors through written agreements with, or unwritten policies of, such vendors. Domestic orders are shipped via United Parcel

Service. Upon request, at an additional charge, overnight delivery services are available. The Company operates distribution facilities in Shrewsbury, New Jersey; Mississauga, Canada; Munich, Germany; Milan, Italy; London, England; Paris, France and Amsterdam, The Netherlands.

#### MANAGEMENT INFORMATION SYSTEMS

In the United States, the Company operates a management information system that allows for centralized management of key functions, including inventory and accounts receivable management, purchasing, sales and distribution. The system allows the Company, among other things, to track direct marketing campaign performance, to monitor sales trends, make marketing event driven purchasing decisions, and provide product availability and order status information. In addition to the main system, the Company has systems of networked personal computers, which facilitates data sharing and provides an automated office environment, as well as microcomputer-based desktop publishing systems.

The Company's European operations use local systems, which are being modified to allow exchange of data with the Company's U.S. operations. The Company believes that its management information systems and planned enhancements are sufficient to sustain its present operations and its anticipated growth for the foreseeable future.

All Website development and maintenance is performed in-house by qualified technicians and maintained on independent servers. The Company feels this is a cost-effective approach and enables it to make timely adjustments to marketing initiatives.

#### TRADEMARKS, INTELLECTUAL PROPERTY AND LICENSES

The Company conducts its business under the trademarks and service marks of Programmer's Paradise, The Programmer's Supershop, The "Island Man" cartoon character logo, Lifeboat, DEMO, demo-it!, System Science, ISP\*A, ISP\*D, ISP\*F, ISP\*UK, ISP\*Italy and Logicsoft. The Company believes that its trademarks and service marks have significant value and are an important factor in the marketing of its products. The Company intends to use and protect these and related marks, as necessary. The Company does not maintain a traditional research and development group, but works closely with software authors and publishers and other technology developers to stay abreast of the latest developments in microcomputer technology.

ISP\*D, ISP\*F, Programmer's Paradise, Inc. and Logicsoft are Microsoft Select Large Account Resellers (LAR). The Company has multiple other alliances with publishers such as Lotus, Borland, Sybase, Attachmate, NuMega, Intersolv and Logic Works.

#### EMPLOYEES

At December 31, 1998, the Company and its subsidiaries employed 261 full-time and 13 part-time persons. The Company is not a party to any collective bargaining agreements with its employees, has experienced no work stoppages and considers its relations with its employees to be satisfactory.

#### COMPETITION

The software distribution market is highly competitive. Pricing is very aggressive, and the Company expects pricing pressure to continue. The Company faces competition from a wide variety of sources including direct sales by vendors, software resellers, superstores, catalogers and other direct marketers of software products, some of which are significantly larger and have substantially greater resources than the Company. Many of these competitors compete principally on the basis of price, product availability, customer service and technical support, and may have lower costs than the Company. The market for software is characterized by rapid changes in technology and user needs. The Company competes both in the acquisition of lists of prospects and of new products from software authors, developers and publishers, as well as in the marketing and sale of its existing products to its customers.

Although many of the Company's competitors have greater financial resources than the Company, the Company believes that an ability to offer the professional programmer a wide selection of products, at low prices, with prompt delivery, and high customer service levels and its good relationships with its vendors and suppliers, allow it to compete effectively. The Company competes to gain distribution rights for new products primarily on the basis of its reputation, the relationships which management of the Company has established with product authors and the Company's ability to promote and market new products successfully.

The manner in which software products are distributed and sold is also changing, and new methods of distribution and sale may emerge or expand. Software developers and publishers have sold, and may intensify their efforts to

sell, their products directly to end-users. The emergence of the Internet as a viable platform in which to conduct business transactions has both lowered the barriers for competition and broadened customers access to products and information. This transition has heightened the Company's awareness to maintain a competitive edge in this market. From time to time certain developers and publishers have instituted programs for the direct sale of large order quantities of software to certain major corporate accounts. These types of programs may continue to be developed and used by various developers and publishers. While Microsoft and other vendors currently sell their update products directly to end users, they have not attempted to completely bypass the reseller channel. Future efforts by such entities to bypass third-party sales channels could materially and adversely affect the Company's operations.

In addition, resellers and publishers may attempt to increase the volume of software products distributed electronically through downloading to end users' microcomputers, through CD-ROM unlocking technology, through CD-ROM based subscription services and through on-line shopping services. Any of these competitive programs, if successful, could have a material adverse effect on the Company's operations and financial condition.

#### SALES TAX AND REGULATORY MATTERS

The Company presently collects state sales tax, or other similar tax, only on sales of products to residents of the State of New Jersey. Various states have tried to impose on direct marketers the burden

of collecting state sales taxes on the sale of products shipped to state residents. The United States Supreme Court has affirmed its position that it is unlawful for a state to impose state sales tax collection obligations on an out-of-state mail order company whose only contacts with the state are the distribution of catalogs and other advertising materials through the mail and subsequent delivery of purchased goods by parcel post and interstate common carriers. However, it is possible that legislation may be passed to overturn such decision or the Supreme Court may change its position. Additionally, it is currently uncertain as to whether electronic commerce, which will likely include the Company's Internet sales activities, will be subject to state sales tax. The imposition of new state sales tax collection obligations on the Company in states to which it ships products would result in additional administrative expenses to the Company and could result in price increases to the customer, which could adversely affect the Company's business, financial condition and results of operations.

The Company seeks to expand its in-house list of customers and prospects. In the event that federal or state governments or European governments enact privacy legislation resulting in the increased regulation of mailing lists, the Company's ability to enhance or expand its lists could be adversely affected. In such event, the Company could also experience increased costs in complying with potentially burdensome regulations concerning the solicitation of consents to keep or add customer names to its mailing lists.

The direct response business is subject to the Mail or Telephone Order Merchandise Rule and related regulations promulgated by the Federal Trade Commission. While the Company believes it is in compliance with such regulations and has implemented programs and systems to assure its ongoing compliance with such regulations, no assurance can be given that new laws or regulations will not be enacted or adopted which might adversely affect the Company's operations.

#### SEASONALITY

The Company has traditionally experienced a decrease in domestic net sales in its third quarter compared to the other quarters. This traditional downturn in domestic net sales is exacerbated by the decline of European commercial activity in general and software sales in particular during the summer months.

#### ITEM 2 PROPERTIES.

At December 31, 1998, the Company leased 18,000 square feet of space at 1157 Shrewsbury Avenue, Shrewsbury, New Jersey for its corporate headquarters under a ten-year lease and an additional 7,250 square feet of space at 1163 Shrewsbury avenue under a five-year lease. Total annual rent expense for these premises is approximately \$264,000. Additionally, the Company leases approximately 3,600 square feet of office space under a three-year lease in Mississauga, Canada. The Company's European facilities, all of which are leased under long-term arrangements, are as follows: 21,679 square feet in Munich, Germany; 8,600 square feet in Milan, Italy; 3,100 square feet in London, England; 21,500 square feet in Amsterdam, The Netherlands; and 3,450 square feet in Paris, France. Total annual rent expense for the European facilities is approximately \$750,000.

#### ITEM 3 LEGAL PROCEEDINGS.

There are no material legal proceedings pending against the Company or



any of its subsidiaries.

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

Not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY.

The executive officers of the Company are as follows:

Name	Age	Position
William H. Willett	62	President, Chief Executive Officer and Chairman of the Board
John P. Broderick	49	Senior Vice President - North America and Chief Financial Officer, Vice President - Finance and Treasurer
Frans van der Helm	42	Vice President European Operations
Jeffrey Largiader	41	Vice President -Marketing

WILLIAM WILLETT has served as a director of the Company since 1996. In July 1998, Mr. Willett was appointed to the position of Chairman, President and Chief Executive Officer. Prior to joining the Company and since 1994, Mr. Willett was the President and Chief Operating Officer of Colorado Prime Foods located in New York.

JOHN P. BRODERICK has served as the Company's Chief Financial Officer and Vice President - Finance of the Company since May 1995. In 1998, he was appointed as the Senior Vice President responsible for North American operations. From 1993 to 1995, he has served as an independent financial consultant to the Company. Mr. Broderick began his career as a CPA with Price Waterhouse LLP and has held similar positions with Waterford Glass Inc., an importer/distributor of Irish crystal, and Olympic Limousine Corp., a transportation conglomerate from 1979 through 1992.

FRANS VAN DER HELM has served as the Vice President and Chief Operating Officer of the Company's operations in The Netherlands, France, the United Kingdom and Italy since December 1998. Prior to that appointment and since 1991, he has been the Adjunct Directeur of Logicsoft Holding BV.

JEFFREY LARGIADER has served as the Vice President - Marketing since 1989 and is responsible for catalog production, advertising sales, media planning and marketing communications. Prior to that and since 1983, he held various sales and product management positions with the Company and the predecessor of Lifeboat.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock trades on the NASDAQ National Market under the symbol "PROG." The following table sets forth, for the calendar quarters indicated, the quarterly high and low sales prices of the Company's Common Stock as reported on NASDAQ. The quotations listed below reflect inter-dealer prices only, without retail markups, markdowns or commissions. Prior to July 18, 1995, there was no established public trading market for the Company's Common Stock.

	High	Low
	----	---
1997		
First Quarter	8 1/4	6 7/8
Second Quarter	10 1/4	6 1/4
Third Quarter	13 1/4	9
Fourth Quarter	13 3/4	7 1/4
1998		
First Quarter	10 1/2	8
Second Quarter	11 1/8	8
Third Quarter	8 5/8	4 3/4
Fourth Quarter	12 5/8	5 1/8

During 1998, 157,775 shares of the Common Stock were issued to employees, former employees and directors of the Company, pursuant to the exercise of incentive stock options granted to them prior to such year under the Company's stock option plans. Such shares were issued pursuant to Rule 701 promulgated under the Securities Act of 1933, at a weighted average exercise

price of \$1.90.

On February 12, 1999, the Company filed a registration statement on Form S-8 with respect to the resale of 1,344,951 shares issued or issuable upon the exercise of options.

#### HOLDERS OF COMMON STOCK

On March 18, 1999, 5,141,386 shares of the Company's Common Stock were outstanding. On such date, there were approximately 72 holders of record.

#### DIVIDENDS

No dividends have been paid on the Company's Common Stock. The Company is limited in its ability to pay dividends by its domestic facility agreement, which presently prohibits the payments of dividends. The Company does not currently anticipate declaring or paying dividends.

#### ITEM 6 SELECTED FINANCIAL DATA.

The following table sets forth, selected consolidated financial data for the Company for the five years ended December 31, 1998. The selected consolidated financial data for the five years are derived from the Company's audited consolidated financial statements. The consolidated financial data set forth below should be read in conjunction with the Company's Consolidated Financial Statements and related Notes and "Management's Discussion and Analysis of Results of Operations and Financial Condition" contained herein.

(In thousands, except per share data)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31				
	1994	1995	1996	1997	1998
	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA (1):					
Net sales	\$71,334	\$93,286	\$127,680	\$176,157	\$234,429
Income from operations	1,370	2,275	2,936	6,217	5,527
Income before minority interest	1,095	4,203	2,199	3,964	3,442
Net income	1,050	4,203	2,298	3,964	3,442
Basic net income per common share	\$0.45	\$1.14	\$0.48	\$0.84	\$0.72
Diluted net income per common share	\$0.35	\$1.03	\$0.44	\$0.75	\$0.66
Weighted average					
common shares outstanding-basic	2,354	3,703	4,764	4,740	4,749
Weighted average					
common shares outstanding-diluted	3,142	4,102	5,198	5,280	5,249
BALANCE SHEET DATA:					
Working capital	\$ 2,731	\$21,689	\$12,415	\$16,077	\$17,686
Total assets	24,730	58,329	68,490	86,368	104,877
Short-term debt	3,489	2,469	1,135	958	674
Long-term debt	--	--	1,050	2,220	1,761
Stockholders' equity	4,597	26,989	28,845	32,213	36,241

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(1) Comparability of the Statement of Operations is affected by acquisitions occurring throughout the periods presented.

(2) All earnings per share amounts for all periods presented have been restated to conform to the requirements of Statement of Financial Accounting Standards No. 128.

#### ITEM 7 MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

##### OVERVIEW

The Company is a distributor of software, operating through five distribution channels - Internet, catalogs, direct sales, telemarketing and wholesale operations. Internet sales encompass the Company's domestic and international web sites. Catalog operations include worldwide catalog sales, advertising and publishing. Direct sales operations include Programmer's Paradise Corporate Sales in the United States; ISP\*D in Munich, Germany; Logicsoft, in Amsterdam, The Netherlands; both wholly-owned subsidiaries of the Company; and ISP\*F, a majority-owned company located in Paris, France.

Telemarketing operations are conducted in the United States, the United Kingdom and in Germany. The U.S. telemarketing operations are an offshoot of the catalog channel targeting corporate customers for both technical software and desktop applications. Wholesale operations include distributions to dealers and large resellers through Lifeboat Distribution Inc. in the U.S. and Lifeboat Italy in Milan, Italy, also subsidiaries of the Company.

The Company was founded in 1982 as a wholesaler and reseller of educational software. In June 1986, the Company acquired Lifeboat Associates, a wholesale distributor and publisher of software founded in 1976. Later in 1986, Programmer's Paradise was started by the Company as a catalog marketer of technical software. In 1988, the Company acquired Corsoft Inc., a corporate reseller founded in 1983, and combined it with the operations of the Programmer's Paradise catalog and Lifeboat Associates, both of which were involved in the marketing of technical software for microcomputers. In May 1995, the Company changed its name from "Voyager Software Corp" to "Programmer's Paradise, Inc." In July 1995, the Company completed an initial public offering of its common stock. In June 1996, the Company acquired substantially all of the assets of The Software Developer's Company, Inc. including The Programmer's Supershop catalog, its largest domestic competitor at the time.

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. In December 1995, the Company acquired Systematika Ltd., 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, as a full service corporate reseller of PC software, based in Paris and majority owned by Programmer's Paradise France SARL. In September 1997, the Company acquired Logicsoft Holding BV, the parent company of Logicsoft Europe BV, the predominate Large Account Reseller in the Benelux territory. 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.

The Company has experienced in the past and will experience in the future seasonal variations in net sales and net income. Factors that have contributed to seasonal operating results include product cycles of suppliers that are not controlled or influenced by the Company, product availability, supplier relationships, customer licenses and contracts, the timing of catalog mailings, catalog response rates, product mix, past and potential acquisitions, the condition of the software industry in general, traditional softness in summertime European commercial activity, shifts in demand for software products and industry announcements, releases of new products and upgrades and corporate purchasing cycles.

#### 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:

FOR THE YEAR ENDED DECEMBER 31,

<TABLE>  
<CAPTION>

	% to Net Sales			% Change	
	1996	1997	1998	97 v 96	98 v 97
<S>	<C>	<C>	<C>		
Net Sales	100.0%	100.0%	100.0%		
Cost of Sales	83.8%	85.4%	87.5%		
Gross Profit	16.2%	14.6%	12.5%	(1.6%)	(2.1%)
Selling, general and administrative expenses	13.5%	10.6%	9.7%	(2.9%)	(0.9%)
Amortization of goodwill	0.4%	0.5%	0.4%	0.1%	(0.1%)
Income from operations	2.3%	3.5%	2.4%	1.2%	(1.1%)
Interest (income), expense net	(0.2%)	(0.1%)	(0.1%)	(0.1%)	(0.0%)
Income before taxes	2.5%	3.6%	2.5%	1.1%	(1.1%)
Provision for Income tax	(0.8%)	(1.4%)	(1.0%)	0.6%	(0.4%)
Minority interest (loss)	(0.1%)			0.1%	

Net Income	1.8%	2.2%	1.5%	0.4%	(0.7%)
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</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 of the Company increased by \$58.5 million or 33%, to \$234.4 million in 1998 and by \$48.5 million, or 38%, to \$176.2 million in 1997 as compared to the respective preceding periods. The increase in revenues in 1998 is primarily attributable to strong growth in the direct sales channel. Revenues within the direct sales channel increased 69% or \$62.4 million in 1998, the majority of which resulted from the acquisition of Logicsoft in September 1997. The Company also posted strong gains in the direct sales channel in both France and Germany, which grew by 30% and 29%, respectively. Revenues within the catalog channel declined from 1997 by approximately 5% to \$66.5 million primarily due to the Y2K issue as well as the lack of new products being introduced into the channel. Most catalog customers are individual programmers and developers and as such, were extensively involved in Y2K conversion projects and therefore delaying scheduled development projects. In addition, no significant new technical software products were introduced into the channel during 1998 with the exception of Microsoft's introduction of their upgrades for Visual C++ and Visual Basic in September 1998.

The growth in net sales in 1997 resulted from a combination of the growth of the catalog channel and direct sales channels as well as growth through acquisitions. Revenues within the catalog channel increased 19% or \$11.3 million in 1997, the majority of which was incurred in the United States and reflects the full year impact of the acquisition of The Programmer's Supershop acquired in June 1996 as well as the introduction and development of the Company's newest segmented catalog: NT Supershop. Domestic catalog circulation increased by approximately 1.7 million catalog drops reflecting the growth of the Company's five catalog offerings. Revenues within the corporate reseller channel increased 66% in 1997 primarily resulting from a significant increase in the amount of German and Austrian reseller customers as well as the acquisition of Logicsoft Holding BV in September 1997. Revenues within Germany and Austria increased by approximately 47% over 1996 while revenues in the United Kingdom increased by 26% over 1996. The increase in revenues reflects an increase in market share and is directly attributable to the value-added services and pan-European capabilities being delivered by the group.

#### GROSS PROFIT

Gross profit represents the difference between net sales and cost 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. Gross Profit as a percentage of net sales decreased by 2.1% in 1998 from 14.6% to 12.5% reflecting a shift in the mix of sales through the Company's distribution channels as a result of the substantial increase in lower margin direct sales and Microsoft Select licensing sales. The acquisition of Logicsoft Holding BV was a significant factor in the overall shift of the revenue mix by increasing lower margin direct sales.

In the past, 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 direct sales or distribution channels. In 1998, catalog operations contributed approximately 28% of revenue and approximately 44% of gross margin dollars as compared with 40% of revenue and 59% of gross margin dollars in 1997. Direct sales operations contributed approximately 65% of revenue and approximately 49% of gross margin dollars in 1998 and 51% of revenue and 32% of gross margin dollars in 1997. The distribution channel contributed approximately 6% of revenue and approximately 8% of gross margin dollars in 1998 compared with 9% of revenue and 9% of margin dollars in 1997.

The historically higher margins attained in the catalog channel are related to both the product focus on technical software, including numerous specialized products, and on the relatively fragmented customer base of the catalog channel, in comparison to the direct sales channel, which primarily serves large corporations purchasing high volumes of widely available business applications. In the future, the Company's gross margins will be affected by several factors, including, among others, the price of products sold, the distribution channel used, increases in product costs, price competition and the introduction of new products. Furthermore, revenues within the direct sales channel could be adversely affected if Microsoft were to change the methodology of license contracts wherein the Large Account Resellers would earn commissions rather than take on the credit risk and record the revenues.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses include all

corporate personnel costs (including salaries and health benefits), depreciation and amortization, non-personnel-related marketing and administrative costs and provision for doubtful accounts. Depreciation and amortization consists primarily of equipment depreciation and leasehold amortization. SG&A expenses have decreased as a percentage of revenues from 13.5% in 1996 to 10.6% in 1997 and then further declined to 9.7% of net revenues in 1998. The high SG&A expense as a percentage of revenues in 1996 is attributable to the abnormally high overheads incurred with the start-up of the French corporate reseller operation. The French corporate reseller operation required mid-year restructuring which involved the separation and payment of severance for several employees. The decline in SG&A expense as a percentage of revenues in 1997 is attributable to the increase in revenues in the reseller channel, which has generally lower SG&A costs as a percentage of revenues and also the impact of the acquisition of Logicsoft Holding BV. This is further exemplified by the percentage reduction in SG&A as a percentage of revenues in 1998 as the full year impact of the acquisition of Logicsoft was felt as well as certain economies of scale that were realized. Each year SG&A has increased in absolute dollars, reflecting the cost of operations of the Company's acquisitions such as the Programmer's Supershop, System Science, ISP\*D and most recently, Logicsoft Holding BV. The Company does anticipate that SG&A as a percentage of revenues will continue to decline as revenues continue to grow and cost containment directives remain in place, however, there can be no assurances that this will occur.

#### AMORTIZATION

Amortization expense includes the systematic write-off of goodwill. The Company incurred goodwill with the acquisition of both ISP\*D and Lifeboat Italia which it is amortizing over 20 years. In addition, the Company recorded goodwill in conjunction with the acquisition of both Systematika Ltd. and ISP\*F International Software Partners France. The Company recognized approximately \$9.5 million in goodwill from the acquisition of the assets of The Software Developer's Company, Inc. in June 1996 which is being amortized over a fifteen-year period for both financial and tax accounting purposes. In connection with the acquisition of Logicsoft Holding BV, the Company recognized approximately \$2.4 million in goodwill, which is being amortized over a fifteen-year period. The purchase contract with Logicsoft Holding BV included an "earn-out" feature based on results of operations for the fiscal year ended December 31, 1998. As a result, the Company has recorded an additional \$2.2 million as goodwill on the accompanying balance sheet.

#### INTEREST INCOME AND EXPENSE

The Company generated net interest income of approximately \$293,000, \$212,000 and \$223,000 in 1998, 1997 and 1996, respectively. Net interest income in 1998 was offset by the interest charge under the term-loan financing for the acquisition of Logicsoft Holding BV. Overall interest income for 1996 was negatively impacted by the utilization of cash to finance the acquisition of ISP\*F.

#### MINORITY INTEREST

Minority interest represents the share of the ISP\*F losses related to the 28% stock ownership, which was not owned by the Company at December 31, 1996. An additional minority equity contribution was funded in October 1996 as part of a reorganization and adjustment in ownership percentage. Operating losses for ISP\*F are offset against minority interest. Because the operating losses for ISP\*F exceeded minority interest, the Company recognized substantially all of the operating losses through September 30, 1996. This amounted to approximately \$775,000.

#### INCOME TAXES

Prior to 1995, the Company had accumulated net operating loss carryforwards and other deductible temporary differences for income tax purposes of approximately \$10.5 million which could be used to offset taxable income through the year 2005. The Company's initial public offering triggered an ownership change, which imposes a limit on the use of these net operating loss carryforwards. See Note 5 to the Consolidated Financial Statements.

Statement of Financial Accounting Standards No. 109 requires that a valuation allowance be recorded for deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends upon the existence of future taxable income.

For the year ended December 31, 1998, the Company recorded a provision for income taxes of approximately \$2.4 million, which consists of a provision for state and federal taxes of approximately \$2.1 million and also a provision for foreign taxes of approximately \$300,000. In 1997, the Company recorded a provision for income taxes of approximately \$2.4 million, which consists of a provision for state and federal taxes of approximately \$2.35 million and also a provision for foreign taxes of approximately \$54,000. In 1996, the Company recorded a provision for income taxes of approximately \$991,000 which consists

of a provision for state and federal taxes of approximately \$1.3 million offset by a reduction in the tax valuation allowance of approximately \$350,000 associated with prior period losses of the German subsidiary.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$3,300,000 and \$2,900,000 at December 31, 1998 and 1997, respectively. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided. Upon distribution of those earnings in the form of dividends, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries.

#### 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. Historically, the Company's primary sources of financing have been borrowings under its domestic and international lines of credit with financial institutions and the issuance of common and preferred stock.

Cash flows from operations were approximately \$2,869,000 for the year ended December 31, 1998 compared to \$6,196,000 and \$1,166,000 for 1997 and 1996, respectively. In 1998, cash was provided primarily by the net income of the Company and by an increase in accounts payable, reflecting the increase in Microsoft Select business and related amounts payable but not yet due to Microsoft, offset by an increase in accounts receivable, reflecting strong fourth quarter sales. Cash flows from operations for 1997 and 1996 were also provided by the net income of the Company and by similar increases in amounts payable but not yet due to Microsoft. In addition, cash flows from operations for 1996 were negatively impacted by the losses generated by the operations of ISP\*F, the French corporate reseller and a DSO in France that is unusually long in comparison to other entities within the Company.

At December 31, 1998, the Company had cash and cash equivalents of \$21.1 million and net working capital of \$17.7 million compared with cash and cash equivalents of \$20.6 million and net working capital of \$16.1 million at December 31, 1997. The increase in working capital at December 31, 1998 is attributable to the earnings for the year then ended offset by the additional liability resulting from the "earn-out" provisions of the acquisition of Logicsoft Holding BV.

The Company's capital expenditures for 1998 and 1997 amounted to approximately \$1,388,000 and \$718,000, respectively, primarily for computer hardware and software, office furniture and leasehold improvements. In addition, in 1997, the Company acquired approximately \$187,000 of assets as part of the acquisition of Logicsoft Holding BV.

Domestically, the Company has a committed line of credit whereby the Company can borrow up to \$7.5 million with interest at either the prime rate or Euro-rate plus 200 basis points. The facility expires on June 30, 1999 and is secured by all the domestic assets of the Company and 65% of the outstanding stock of the foreign subsidiaries and contains certain covenants that require the Company to maintain a minimum level of tangible net worth and working capital. At December 31, 1998, there were no amounts outstanding under the line.

During 1997, the Company entered into a five-year term loan agreement in the US \$ equivalent of \$3.0 million bearing interest at 6.17%. The loan is denominated in Dutch Guilders and is secured by the assets of the Company and 65% of the stock of foreign subsidiaries. At December 31, 1998, there was approximately \$2.4 million outstanding under the note.

The Company maintains a secured, demand revolving line of credit for its German subsidiary, pursuant to which it may borrow in Deutschmarks up to DM 1,500,000 (the equivalent of approximately \$900,000 at December 31, 1998), based upon its eligible accounts receivable and eligible 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 \$180,000 at December 31, 1998). The line bears interest at 8.25%. At December 31, 1998, there were no amounts outstanding under the line.

In Italy, Lifeboat Italy has banking arrangements with several Italian banks, pursuant to which it may borrow in lire on an unsecured, demand basis to finance working capital requirements, through credit and overdrafting privileges, as well as receivables-based advances. The aggregate credit and overdraft limits of such arrangements at December 31, 1998 were approximately Lit 2,800,000,000 (the equivalent of approximately \$1.6 million at December 31, 1998). The unsecured borrowings bear interest at market rates ranging from 6.25% to 9.00%. At December 31, 1998 there were no amounts outstanding under this line.

The Company's subsidiary in The Netherlands, Logicsoft Europe, BV, maintains a demand revolving line of credit pursuant to which it may borrow in guilders up to DFL 2.5 million (the equivalent of approximately \$1.3 million at

December 31, 1998), and is secured by its accounts receivable and inventory. The line bears interest at 5.875%. There were no amounts outstanding under the line at December 31, 1998.

In France, ISP\*F maintains a demand revolving line of credit pursuant to which it may borrow up to FRF 3.0 million (the equivalent of approximately \$500,000 at December 31, 1998), and is secured by its accounts receivable and inventory and a FRF 3.0 million letter of credit. At December 31, 1998, there were no amounts outstanding under the line.

#### FOREIGN EXCHANGE

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

Sales to the customers in European countries and borrowings by the Company's European subsidiaries are denominated in local currencies. 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 currency exchange fluctuations, the Company is, nevertheless, subject to risks associated with such fluctuations.

#### CERTAIN FACTORS AFFECTING OPERATING RESULTS

Certain statements contained in, or incorporated by reference in, this Form 10-K are forward-looking in nature. 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. The Company wishes to ensure that such statements are accompanied by meaningful cautionary statements, so as to ensure to the fullest extent possible the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. Accordingly, such statements are qualified in their entirety by reference to and are accompanied by the following discussion of certain important factors that could cause actual results to differ materially from those projected in such forward-looking statements. 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.

**Competition.** The direct marketing industry and the computer software distribution business, in particular, are highly competitive. The Company competes with consumer electronic and computer retail stores, including superstores, and other direct marketers of software and computer related products. Certain software vendors are selling their products directly through their own catalogs and over the Internet. Certain competitors of the Company have financial, marketing and other resources greater than those of the Company. There can be no assurance that the Company can continue to compete effectively against existing competitors or new competitors that may enter the market. In addition, price is an important competitive factor in the personal computer software market and there can be no assurance that the Company will not be subject to increased price competition. An increase in the amount of competition faced by the Company or its failure to compete effectively against its competitors could have a material adverse effect on the Company's business, financial condition and results of operations.

**Quarterly Fluctuations and Seasonality.** 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.

The Company has traditionally experienced a decrease in domestic net sales in its third quarter compared to other quarters. This traditional downturn in domestic net sales is exacerbated by the decline of European commercial activity in general and software sales in particular during the summer months.

Foreign Operations. In addition to its activities in the United States, 70% of the Company's 1998 sales were generated internationally. Foreign operations are subject to general risks attendant to the conduct of business in each foreign country, including economic uncertainties and each foreign government's regulations. In addition, the Company's international business may be affected by changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors.

Privacy Concerns With Respect To List Development And Maintenance. The Company mails catalogs and sends electronic messages to names in its proprietary customer database and to potential customers whose names are obtained from rented or exchanged mailing lists. There has been increasing world-wide public concern regarding right to privacy issues involved with the rental and use of customer mailing lists and other customer information. Any domestic or foreign legislation enacted limiting or prohibiting these practices could have a material adverse effect on the Company's business, financial condition and results of operations.

Management Information Systems. The Company's success is dependent on the accuracy and proper utilization of its management information systems, including its telephone system. The Company's ability to manage its inventory and accounts receivable collections; to purchase, sell and ship its products efficiently and on a timely basis; and to maintain its operations is dependent upon the quality and effective utilization of the information generated by its management information systems. The Company recognizes the need to continually upgrade its management information systems to most effectively manage its operations and customer data base. In that regard, the Company anticipates that it will, from time to time, require software and hardware upgrades for its present management information systems.

Increases In Postage, Shipping And Paper Costs. Increases in postal or shipping rates and paper costs could have a significant impact on the cost of production and mailing of the Company's catalogs and the shipment of customer orders. Postage prices and shipping rates increase periodically, and the Company has no control over increases that may occur in the future. The United States Postal Service has recently increased postal rates. Paper prices historically have been cyclical and significant increases have been experienced by the Company in the past. Significant increases in postal or shipping rates and paper costs could have a material adverse effect on the Company's business, financial condition and result of operations, particularly to the extent the Company is unable to pass on such increases directly to its customers or offset such increases by reducing other costs. In addition, strikes or other service interruptions by the postal service or third party couriers could adversely affect the Company's ability to deliver products on a timely basis.

Additionally, the Company's operating results could be adversely affected by a delay in the introduction of a major new software product or upgrading of more specialized products. Purchasers of software may delay the ordering of new software applications in the period immediately preceding such introduction for fear of technological obsolescence. The Company believes that software publishers often delay the release of related software products so as to coordinate with the release of these major new products or delay development of new products until after the importance of these new products can be evaluated. Delayed introductions of these new products could result in the delay or reduction of sales because the unreleased product cannot be delivered and could also adversely affect sales in that the

Company, which often coordinates new catalog drops and marketing initiatives with such introductions and product upgrades, would be focusing catalog marketing on such unreleased products.

Changing Methods Of Software Distribution. The software distribution industry is undergoing significant change and consolidation. Software distributors are consolidating operations and acquiring or merging with other distributors or retailers to achieve economies of scale and increased efficiency. The current consolidation trend could cause the industry to become even more competitive and make it more difficult for the Company to maintain its operating margins. The manner in which software products are distributed and sold is also changing, and new methods of distribution and sale may emerge or expand. Software developers and publishers have sold, and may intensify their efforts to sell, their products directly to end users. The emergence of the Internet as a viable platform in which to conduct business transactions has both lowered the barriers for competition and broadened customers' access to products and information. This transition has heightened the Company's awareness to maintain a competitive edge in this market. From time to time certain developers and publishers have instituted programs for the direct sale of large order quantities of software to certain major corporate accounts. These types of programs may continue to be developed and used by various developers and



publishers. While Microsoft and other vendors currently sell their products directly to end users, they have not attempted to completely bypass the reseller channel. Future efforts by such entities to bypass third-party sales channels could materially and adversely affect the Company's operations.

In addition, certain major publishers, including Microsoft, have implemented programs for the master copy distribution or site licensing of software. These programs generally grant an organization the right to make a number of copies of software for distribution within the organization provided that the organization pays a fee to the developer for each copy made. Also, resellers and publishers may attempt to increase the volume of software products distributed electronically through down-loading to end users' microcomputers, through CD-ROM unlocking technology, through CD-ROM-based subscription services and through on-line shopping services. Any of these competitive programs, if successful, could have a material adverse effect on the Company's operations and financial condition.

**Dependence Upon Vendors.** As is customary in the industry, the Company has no long-term supply contracts with any of its suppliers. Substantially all the Company's contracts with its vendors are terminable upon 30 days' notice or less. Termination or interruption of the Company's relationships with its suppliers or modification of the terms of or discontinuance of their agreements with the Company could adversely affect the Company's operating results.

Certain of the products offered by the Company may be subject to manufacturer allocations, which limit the number of units of manufacturers' products available to resellers, including the Company. The Company's business may be adversely affected if certain products become unavailable to the Company or if the number of units allocated to the Company becomes limited, whether such unavailability or limitation is due to the loss of authorized dealer status, allocation limitations or other conditions. Many key vendors finance portions of the cost of catalog publication and distribution based upon the amount of coverage given in the catalogs to their respective products. A reduction in or discontinuation of this practice could have a material adverse effect on the Company.

**Rapid Changes In Software Products And Risk Of Inventory Obsolescence.** The software products industry is characterized by rapid technological change and the frequent introduction of new products and product enhancements. The Company's success depends in large part on its ability to identify and obtain the right to market products that will meet the changing requirements of the marketplace. The Company has sought to minimize its inventory exposure through a variety of inventory control procedures and policies, including formal and informal vendor price protection programs. In order to satisfy customer demand and to obtain greater purchasing discounts, the Company expects to carry increased inventory levels of certain products in the future. In addition, large software firms continue to develop products that include the features of utility and subroutine products published and/or sold by the Company in their software languages, thus rendering certain of such products unnecessary.

Additionally, if the growth rate of the personal computer market were to decrease, with a corresponding decrease in demand for computer software, the Company's operating results could be adversely affected. There can be no assurance that the Company will be able to identify and offer products necessary to remain competitive or avoid losses related to obsolete inventory, or that unexpected new product introductions will not have a material adverse effect on the demand for the Company's inventory.

**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.

**Acquisitions Strategy.** The Company plans to continue to pursue acquisitions of complementary businesses. However, there can be no assurance that suitable acquisitions will be available to the Company on acceptable terms, that financing for future acquisitions will be available on acceptable terms, that future acquisitions will be advantageous to the Company or that anticipated benefits of such acquisitions will be realized. The pursuit, timing and integration of possible future acquisitions may cause substantial fluctuations in operating results.

**State Sales Tax Collection.** The Company presently collects state sales tax, or other similar tax, only on sales of products to residents of the State of New Jersey. Various states have tried to impose on direct marketers the burden of collecting state sales taxes on the sale of products shipped to state residents. The United States Supreme Court has affirmed its position that it is

unlawful for a state to impose state sales tax collection obligations on an out-of-state mail order company whose only contacts with the state are the distribution of catalogs and other advertising materials through the mail and subsequent delivery of purchased goods by parcel post and interstate common carriers. However, it is possible that legislation may be passed to overturn such decision or the Supreme Court may change its position. Additionally, it is currently uncertain as to whether electronic commerce, which will likely include the Company's Internet sales activities, will be subject to state sales tax. The imposition of new state sales tax collection obligations on the Company in states to which it ships products would result in additional administrative expenses to the Company and could result in price increases to the customer, which could adversely affect the Company's business, financial condition and results of operations.

Year 2000 Compliance. The Company believes that its present IT system is Year 2000 compliant. The Company has also conducted an investigation and received certification from its major suppliers that they will be fully Y2K compliant by April 1999.

The Company is continuing to conduct a review of key publishers to determine whether their software products meet Year 2000 requirements. The Company has continued to post updated information on Y2K compliancy on its website. In the event that the Company's key publishers cannot provide the Company with software products that meet Year 2000 requirements on a timely basis, or if customers delay or forego software purchases based upon Year 2000 related issues, the Company's operating results could be materially adversely affected. In general, as a reseller of software products, the Company only passes through to its customers the applicable vendor's warranties. The Company's operating results could be materially adversely affected, however, if it were held liable for the failure of software products resold by the Company to be Year 2000 compliant despite its disclaimer of software product warranties.

#### ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding quantitative and qualitative disclosures about market risk is set forth in Part I, Item 7 of this Form 10-K at "Foreign Operations."

#### ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See Index to Consolidated Financial Statements at Item 14(a).

#### ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

### PART III

#### ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

This information (other than the information regarding executive officers of the Company called for by Item 401 of Regulation S-K which is included in Part I hereof as Item 4A in accordance with General Instruction G(3)) will be contained in the Company's definitive Proxy Statement with respect to the Company's Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, and is hereby incorporated by reference thereto.

#### ITEM 11 EXECUTIVE COMPENSATION.

This information will be contained in the Company's definitive Proxy Statement with respect to the Company's Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, and is hereby incorporated by reference thereto.

#### ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

This information will be contained in the Company's definitive Proxy Statement with respect to the Company's Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, and is hereby incorporated by reference thereto.

#### ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

This information will be contained in the Company's definitive Proxy Statement with respect to the Company's Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of the Company's fiscal year, and is hereby incorporated by reference thereto.

PART IV

ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

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

1. CONSOLIDATED FINANCIAL STATEMENTS:

Index to Consolidated Financial Statements and Schedules

Report of Independent Auditors

Consolidated Balance Sheets - as of  
December 31, 1997 and 1998

Consolidated Statements of Income - Years  
ended December 31, 1996, 1997 and 1998

Consolidated Statement of Stockholders' Equity-Years ended  
December 31, 1996, 1997 and, 1998

Consolidated Statements of Cash Flows - Years  
ended December 31, 1996, 1997 and  
1998

Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULE:

Schedule II Valuation and Qualifying Accounts

All other schedules are omitted for the reason that the information is included in the financial statements or the notes thereto or that they are not required or are not applicable.

3. EXHIBITS:

Exhibit Number -----	Description of Exhibits. -----
3.1	Form of Amended and Restated Certificate of Incorporation of the Company.*
3.2	Form of Amended and Restated By-Laws of the Company.*
4.1	Specimen of Common Stock Certificate.*
10.2	Amended and Restated Revolving Loan and Security Agreement, dated as of March 4, 1993, between Midlantic National Bank and the Company together with Revolving Loan Note; First Amendment to Amended and Restated Revolving Loan and Security Agreement, dated as of March 4, 1993, between Midlantic National Bank and the Company, Corsoft, Inc. and Lifeboat together with First Allonge to Revolving Loan Note; Consent of Midlantic National Bank.*
10.3	ISP*D Loan Agreements.*
10.4	Lifeboat Italy Loan Agreement.*
10.5	Lease, dated as of August 27, 1987, by and between Robert C. Baker, Robert C. Baker, Trustee under Trust Agreement dated March 15, 1984 for the Benefit of Ashley S. Baker, Gerald H. Baker, Harvey B. Oshins, Baker 1985 Family Partnership, Gregory J. Stepic and John G. Orrico ("Landlord") and Computer Library, Inc., and First Modification of Lease, dated as of April 24, 1991, between Landlord and the Company.*
10.6	ISP*D Office Lease.*
10.7	Lifeboat Italy Office Lease.*
10.8	Agreement dated as of December 29, 1994, between Lifeboat Publishing and Software Garden, Inc.; License for Trademark "Dan Bricklin", dated as of December 29, 1994, between the Company and Daniel Bricklin; First Amendment to Software License Agreement and Trademark License Agreement dated March 30, 1995.*
10.9	Employment Letter with Roger Paradis dated as of May 24, 1995.*

- 10.11 Employment Letter with Joseph V. Popolo dated as of December 16, 1994.\*
- 10.12 Employment Letter with John P. Broderick dated as of May 10, 1995.\*
- 10.13 Employment Letter with Massimo Freschi dated as of June 18, 1992.\*
- 10.14 Employment Letter with Frederick W. Schmidt dated as of January 19, 1994.\*
- 10.15 Form of Confidentiality and Non-Compete Agreement.\*
- 10.16 Employment Agreement dated as of May 26, 1994, between Peter Lorenz, ISP\*D and the Company.\*
- 10.17 1986 Stock Option Plan and Form of Employee Stock Option Agreement.\*
- 10.18 1995 Stock Plan.\*
- 10.19 1995 Non-Employee Director Plan.\*
- 10.20 Form of Officer and Director Indemnification Agreement.\*
- 10.21 Registration Rights Agreement dated as of May , 1988.\*
- 10.22 Agreement, dated December 19, 1995, by and between Programmer's Paradise (UK) Limited and the former shareholders of Systematika Limited, as supplemented by a letter agreement dated December 19, 1995 between Peter Lindsey and Programmer's Paradise (UK) Limited.+
- 10.23 Employment Agreement dated December 19, 1995 between Peter Lindsey and Systematika Limited.+
- 10.24 Share Sale Agreement dated December 29, 1995 between Raphael and Rosario Perez and Programmer's Paradise France relating to Logiciels & Applications SA. ++
- 10.25 Shareholders' Agreement dated December 29, 1995 between Raphael Perez, Softway, Inc., Selsid and Programmer's Paradise France relating to Logiciels & Applications SA. ++
- 10.26 Warranty Agreement dated January 18, 1996 by and among Raphael Perez, Rosario Perez and Programmer's Paradise France relating to Logiciels & Applications SA. ++
- 10.27 Share Sale Agreement Amendment Agreement dated January 18, 1996 Relating to Logiciels & Applications by and among Raphael Perez, Rosario Perez and Programmer's Paradise France. ++
- 10.28 Call Option Agreement dated January 18, 1996 between Raphael Perez and Programmer's Paradise France. ++
- 10.29 Side Agreement dated January 18, 1996 to Call Option Agreement dated January 18, 1996 between Raphael Perez and Programmer's Paradise France. ++
- 10.30 Call Option Agreement dated January 18, 1996 by and among Softway, Inc., Selsid and Programmer's Paradise France. ++
- 10.31 Employment Agreement dated January 22, 1996 between Raphael Perez and Logiciels Et Applications. ++
- 10.32 Agreement of Purchase and Sales of Assets, dated as of May 16, 1996, between the Registrant and the Selling Parties, and the exhibits thereto. \*\*
- 10.33 Bill of Sale, dated as of June 28, 1996, executed by the Selling Parties.\*\*
- 10.34 Facilities and Employee Use Agreement, dated as of June 28, 1996, between the Registrant and SDC.\*\*
- 10.35 Closing Statement, dated as of June 28, 1996, between the Registrant and the Selling Parties\*\*
- 10.36 Letter Agreement regarding the Acquisition of Stock of SDEV Germany, dated as of June 28, 1996, between the Registrant and the Selling Parties.\*\*
- 10.37 Stock Acquisition Escrow Agreement, dated as of June 28, 1996, between the Registrant, the Selling Parties and Golenbock, Eiseman, Assor & Bell, as escrow agent.\*\*
- 10.38 Employment Agreement dated July 14, 1998 between William Willett and the Company

- 10.39 Employment Agreement dated June 9, 1998 between John P. Broderick and the Company
- 10.40 Employment Agreement dated December 29, 1998 between Peter Lorenz and the Company
- 10.41 Employment Agreement dated January 2, 1999 between Frans van der Helm and the Company
- 10.42 Lease dated as of May 14, 1997 between Robert C. Baker, et al as Landlord and the Company
- 21.1 Subsidiaries of the Registrant.\*
- 23.1 Consent of Ernst & Young LLP
- 24.1 Powers of Attorney.\*
- 27 Financial data schedule

-- -----

- \* Incorporated by reference to exhibits of the same number filed with the Registrant's Registration Statement on Form S-1 or amendments thereto (File No. 33-92810).
- + Incorporated by reference to the Registrant's Report on Form 8-K dated January 2, 1996 or amendments thereto.
- ++ Incorporated by reference to exhibits of the same number filed with the Registrant's Report on Form 10-K dated March 28, 1996.
- \*\* Incorporated by reference to the Registrant's Report on Form 8-K dated July 19, 1996 or amendments thereto.

(b) Reports on Form 8-K.

No reports were filed on Form 8-K during the last quarter of the fiscal year covered by this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in Shrewsbury, New Jersey, on March 29, 1999.

PROGRAMMER'S PARADISE, INC.

By: \_\_\_\_\_  
William H. Willett, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

<TABLE>  
<CAPTION>

SIGNATURE -----	TITLE -----	DATE ----
<S>  ----- William H. Willett	<C> Chief Executive Officer and Chairman of the Board of Directors	<C> March 29, 1999
----- John P. Broderick	Chief Financial and Accounting Officer	March 29, 1999
----- Edwin H. Morgens	Director	March 29, 1999
-----	Director	March 29, 1999

-----  
Allan Weingarten

-----  
F. Duffield Meyercord  
</TABLE>

Director

March 29, 1999

PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

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Consolidated Statements of Income	F-4
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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Programmer's Paradise, Inc. and subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the Index of Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Programmer's Paradise, Inc. and subsidiaries at December 31, 1997 and 1998 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth herein.

/s/ Ernst & Young LLP

MetroPark, New Jersey  
January 27, 1999

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

<TABLE>  
<CAPTION>

<S>  
ASSETS  
Current assets:

	DECEMBER 31	
	1997	1998
	-----	-----
	<C>	<C>

Cash and cash equivalents	\$20,571	\$21,167
Accounts receivable, net of allowances of \$950 and \$1,180 in 1997 and 1998, respectively	38,517	53,002
Inventory	4,627	5,335
Prepaid expenses and other current assets	2,561	2,925
Deferred income taxes	1,619	1,988
<b>Total current assets</b>	<b>67,895</b>	<b>84,417</b>
Equipment and leasehold improvements, net	1,862	2,317
Goodwill, net of accumulated amortization of \$1,600 and \$2,579 in 1997 and 1998, respectively	14,185	15,595
Other assets	707	1,286
Deferred income taxes	1,719	1,262
	<b>\$86,368</b>	<b>\$104,877</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$46,979	\$58,064
Notes payable to banks	958	674
Other current liabilities	3,881	7,993
<b>Total current liabilities</b>	<b>51,818</b>	<b>66,731</b>
Other liabilities	117	144
Notes payable - Long-term	2,220	1,761
<b>Stockholders' equity:</b>		
Common Stock \$.01 par value: Authorized, 10,000,000 shares, issued 4,793,295 and 4,951,070 in 1997 and 1998, respectively	48	50
Additional paid-in capital	33,633	33,952
Treasury stock, at cost, 59,500 and 41,000 shares in 1997 and 1998, respectively	(343)	(219)
Retained Earnings (Deficit)	(256)	3,186
Accumulated other comprehensive loss	(869)	(728)
<b>Total stockholders' equity</b>	<b>32,213</b>	<b>36,241</b>
	<b>\$86,368</b>	<b>\$104,877</b>

</TABLE>

See accompanying notes.

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Programmer's Paradise, Inc. and Subsidiaries  
Consolidated Statements of Income  
(In thousands, except per share amounts)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
	<C>	<C>	<C>
Net sales	\$127,680	\$176,157	\$ 234,429
Cost of sales	107,041	150,452	205,241
Gross profit	20,639	25,705	29,188
Selling, general and administrative expenses	17,230	18,574	22,682
Amortization of goodwill	473	914	979
Income from operations	2,936	6,217	5,527
Other (expense) income:			
Interest expense	(373)	(326)	(250)
Interest income	596	538	544
Unrealized foreign exchange (loss) gain	31	(58)	62
Income before income taxes and minority interest	3,190	6,371	5,883
Income tax provision	991	2,407	2,441
Income before minority interest	2,199	3,964	3,442
Minority interest in net income of subsidiary	99		
Net income	\$ 2,298	\$ 3,964	\$ 3,442
Basic net income per common share	\$ .48	\$ .84	\$ .72
Diluted net income per common share	\$ .44	\$ .75	\$ .66
Weighted average common shares outstanding-Basic	4,764	4,740	4,797
Weighted average common shares outstanding-Diluted	5,198	5,280	5,249

</TABLE>

See accompanying notes.

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Programmer's Paradise, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
(In thousands, except share amounts)

<TABLE>  
<CAPTION>

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL
	SHARES	AMOUNT	
<S>	<C>	<C>	<C>
Balance at January 1, 1996	4,678,245	\$ 47	\$33,405
Net income			
Other comprehensive income: Translation adjustment			
Comprehensive income			
Exercise of stock options, including \$86,000 in income tax benefits	83,975	1	104
Purchase of 65,000 treasury stock shares			
Balance at December 31, 1996	4,762,220	48	33,509
Net income			
Other comprehensive income: Translation adjustment			
Comprehensive income			
Exercise of stock options, including \$65,000 in income tax benefits	31,075		124
Balance at December 31, 1997	4,793,295	48	33,633
Net income			
Other comprehensive income: Translation adjustment			
Comprehensive income			
Exercise of stock options, including \$372,000 in income tax benefits	157,775	2	319
Purchase of 102,500 treasury stock shares			
Balance at December 31, 1998	4,951,070	\$50	\$33,952

</TABLE>

<TABLE>  
<CAPTION>

	TREASURY STOCK	RETAINED EARNINGS/ (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
<S>	<C>	<C>	<C>	<C>
Balance at January 1, 1996		\$ (6,518)	\$ 55	\$ 26,989
Net income		2,298		2,298
Other comprehensive income: Translation adjustment			\$ (172)	(172)
Comprehensive income				2,126
Exercise of stock options, including \$86,000 in income tax benefits				105
Purchase of 65,000 treasury stock shares	\$ (375)			(375)
Balance at December 31, 1996	(375)	(4,220)	(117)	28,845
Net income		3,964		3,964
Other comprehensive income: Translation adjustment			(752)	(752)
Comprehensive income				3,212
Exercise of stock options, including \$65,000 in income tax benefits	32			156
Balance at December 31, 1997	(343)	(256)	(869)	32,213
Net income		3,442		3,442
Other comprehensive income:				



Translation adjustment			141	141
Comprehensive income				3,583
Exercise of stock options, including				
\$372,000 in income tax benefits	669			990
Purchase of 102,500 treasury stock shares	(545)			(545)
Balance at December 31, 1998	\$ (219)	\$3,186	\$ (728)	\$36,241

</TABLE>

See accompanying notes

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Programmer's Paradise, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(In thousands)

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 2,298	\$ 3,964	\$ 3,442
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest in net income of subsidiary	(99)		
Depreciation expense	701	736	934
Amortization expense	621	1,019	1,114
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(6,103)	(8,167)	(14,486)
Inventory	2,279	173	(708)
Prepaid expenses and other current assets	708	(85)	(364)
Accounts payable and accrued expenses	1,176	7,708	11,085
Deferred tax asset	49	(22)	88
Net change in other operating assets and liabilities	(464)	870	1,764
Net cash provided by operating activities	1,166	6,196	2,869
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment, leasehold improvements and other	(620)	(788)	(1,975)
Purchases of businesses, net of cash acquired	(11,236)	(2,268)	
Net cash used in investing activities	(11,856)	(3,056)	(1,975)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments under lines of credit	(461)	(1,818)	(743)
Borrowings under long term debt		2,962	
Repayments under long term debt		(150)	
Purchase of treasury stock	(375)		(545)
Net proceeds from issuance of common stock	105	156	990
Net cash provided by (used in) financing activities	(731)	1,150	(298)
Net increase (decrease) in cash and cash equivalents	(11,421)	4,290	596
Cash and cash equivalents at beginning of year	27,702	16,281	20,571
Cash and cash equivalents at end of year	\$ 16,281	\$ 20,571	\$ 21,167

</TABLE>

See accompanying notes.

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Programmer's Paradise, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND OPERATIONS

The consolidated financial statements include the accounts of Programmer's Paradise, Inc., its wholly-owned subsidiaries and, its majority-owned subsidiaries (the "Company"). Programmer's Paradise, Inc. is a recognized international marketer of software targeting the software development professional and Information Technology professional within enterprise organizations. The Company operates principally, through five distribution channels in North America and Europe- Internet, catalog, direct sales, telemarketing, and wholesale distribution. All intercompany balances and transactions have been eliminated in consolidation.

The Company's accounts receivable are potentially exposed to concentrations of credit risk. These receivables reflect a broad customer base, which is dispersed across many different industries and geographies. Credit limits, periodic credit evaluations and account monitoring procedures are utilized to minimize the risk of loss. Collateral is generally not required. Credit losses related to accounts receivable have been consistent with management's expectations and, historically, have not been material. The carrying value of accounts receivable and notes payable to banks approximate fair value.

#### MAJOR CUSTOMER AND SUPPLIER

No customer accounted for more than 10% of consolidated net sales in 1998, 1997 and 1996 and no material part of the business is dependent upon a single customer or a few customers, the loss of any one or more which would have a materially adverse effect on the Company.

The Company has authorized dealership or distribution agreements with various suppliers. Products of one of these suppliers accounted for approximately 47%, 55% and 54% of Company revenues for 1996, 1997 and 1998, respectively.

#### CASH AND CASH EQUIVALENTS

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

#### FOREIGN CURRENCY TRANSLATION

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 within other comprehensive income in accordance with FASB Statement No. 130, "Reporting Comprehensive Income".

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### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### INVENTORY

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

#### EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements are stated at cost. Depreciation and amortization are calculated using the straight-line method over three to five years.

#### ACCOUNTING FOR LONG-LIVED ASSETS

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. No such events have occurred since adoption at January 1, 1995.

#### GOODWILL

Goodwill represents the excess of costs over fair values of net assets acquired and is being amortized on a straight-line basis substantially over fifteen years.

#### STOCK-BASED COMPENSATION

As permitted by FASB Statement No. 123 "Accounting for Stock-Based Compensation" (FASB 123), the Company has elected to follow Accounting Principal Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock option plans. Under APB 25, no compensation expense is recognized at the time of option grant because the exercise price of the Company's employee stock option equals the fair market value of the underlying common stock on the date of grant.

## 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## REVENUE RECOGNITION

The Company recognizes revenue from the sale of software for microcomputers, servers and networking upon shipment.

## ADVERTISING COSTS

The Company capitalizes the advertising costs associated with producing its catalogs. The costs of these catalogs are amortized over the estimated shelf life of the catalogs, generally 3-5 months. The unamortized balance of non-reimbursed advertising costs at any period end are minimal. Advertising costs for 1996, 1997, and 1998 amounted to approximately \$5,571,000, \$5,725,000 and \$6,159,000, respectively.

## NET INCOME PER COMMON SHARE

Basic and diluted earnings per share are calculated in accordance with Financial Accounting Standards Board Statement No. 128, "Earnings Per Share". All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement No. 128 requirements.

## EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

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. SFAS 133 will be effective for the Company's fiscal year ending December 31, 2000. Management believes that this Statement will not have a significant impact on the Company.

## 2. ACQUISITIONS

In January 1996, the Company's wholly-owned French subsidiary, Programmer's Paradise France SARL, acquired a majority-owned interest in ISP\*F International Software Partners SA (ISP\*F), a newly formed full service corporate reseller of PC software, based in Paris. The Company's capital contribution in connection with the acquisition of ISP\*F is approximately \$1,214,000.

In June 1996, the Company acquired substantially all of the assets and business of The Software Developer's Company, Inc. (SDC) for cash at a cost of approximately \$11,000,000. SDC had been the Company's largest direct mail competitor, offering a similar array of technical software.

## 2. ACQUISITIONS (CONTINUED)

In September 1997, the Company acquired 100% of the outstanding stock of Logicsoft Holding BV ("Logicsoft"), which operates Logicsoft Europe BV, located in Amsterdam, The Netherlands, at a cost of approximately \$3,300,000 plus a contingent earn-out payment, based upon increases in achievement's earnings in 1998 over a base amount. The earn-out amount of approximately \$ 2.38 million was accrued and recorded as goodwill in 1998. Logicsoft is a direct sales Company of PC software in The Netherlands.

The Company accounted for the above acquisitions as purchases. Accordingly, the acquired assets and liabilities assumed have been recorded at the estimated fair values at the dates of acquisition. The results of operations of the acquired businesses are included in the accompanying consolidated statements of income from their respective dates of acquisition.

The following table presents the unaudited pro forma consolidated results of operations for the year ended December 31, 1997 as if the above acquisitions had occurred on January 1, 1997 (dollars in thousands):

	1997
	-----
Sales	\$192,351
Net income	4,011
Basic net income per common share	\$.85
Diluted net income per common share	\$.76

The pro forma amounts reflect amortization of the excess of purchase price over the net assets acquired, the reduction in operating expenses as a result of combining the operations, the reduction in interest income as a result of the utilization of cash and the related tax effect of these items. The pro forma

results are not necessarily indicative of the results of operations that would have occurred had the acquisitions taken place at the beginning of the periods presented nor are they intended to be indicative of results that may occur in the future.

### 3. NOTES PAYABLE TO BANKS

Notes payable to banks mainly represents the outstanding balance under a five-year term loan discussed below.

In connection with the Logicsoft acquisition (see Note 2), the Company secured a five year term loan in the US \$ equivalent of approximately \$3,000,000. The term loan bears interest at 6.17% and principal and interest are payable quarterly. The loan is payable in Netherland guilders and had an outstanding balance at December 31, 1998 of \$2,401,399 (DFL 4,500,000), of which \$638,094 (DFL 1,200,000) is classified as current in the accompanying consolidated balance sheet. The term loan is secured by all assets of the Company and 65% of the outstanding stock of the foreign subsidiaries.

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### 3. NOTES PAYABLE TO BANKS (CONTINUED)

Maturities under the term loan are as follows:

1999	638,094	(DFL 1,200,000)
2000	638,094	(DFL 1,200,000)
2001	638,094	(DFL 1,200,000)
2002	487,117	(DFL 900,000)

The Company can borrow up to \$7,500,000 under a committed line of credit with interest at either the prime rate or Euro-rate plus 200 basis points. The facility expires on June 30, 1999 and is secured by all the domestic assets of the Company and 65% of the outstanding stock of the foreign subsidiaries and contains certain covenants that require the Company to maintain a minimum level of tangible net worth and working capital. The bank's prime rate was 7.75 % at December 31, 1998. There were no amounts outstanding under the line at December 31, 1998.

The Company maintains a secured, demand revolving line of credit for its German subsidiary, pursuant to which it may borrow in deutschmarks up to DM 1,500,000 (the equivalent of approximately \$900,000 at December 31,1998), based upon its eligible accounts receivable and inventory, and a limited guarantee by the Company of up to DM 300,000 (the equivalent of approximately \$180,000 at December 31, 1998). The line bears interest at 8.25%. At December 31, 1998 there were no amounts outstanding under the line.

In Italy, Lifeboat Italy has banking arrangements with several Italian banks, pursuant to which it may borrow in lire on an unsecured, demand basis to finance working capital requirements, through credit and overdrafting privileges, as well as receivables-based advances. The aggregate credit and overdrafting limits of such arrangements at December 31, 1998 was approximately Lit 2,800,000,000 (the equivalent of approximately \$1,600,000 at December 31, 1998). The unsecured borrowings bear interest at market rates ranging from 6.25% to 9.00%. At December 31, 1998, there were no amounts outstanding under the line.

The Company's subsidiary in The Netherlands, Logicsoft Europe, BV, maintains a demand revolving line of credit pursuant to which it may borrow in guilders up to DFL 2,500,000 (the equivalent of approximately \$1,300,000 at December 31, 1998), and is secured by its accounts receivable and inventory. The line bears interest at 5.875%. At December 31, 1998, there were no amounts outstanding under the line.

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### 3. NOTES PAYABLE TO BANKS (CONTINUED)

In France, ISP\*F, maintains an overdraft demand revolving line of credit pursuant to which it may borrow up to FRF 3,000,000 (the equivalent of approximately \$500,000 at December 31, 1998), and is secured by its accounts receivable and inventory and a FRF 3,000,000 letter of credit. Such letter of credit does not impact the availability under the Company's other facilities. The line bears interest at 7%. At December 31, 1998, there were no amounts outstanding under the line.

The weighted average interest rate for notes payable to banks was 10 %, 8% and 6% at December 31, 1996, 1997 and 1998, respectively.

Interest paid was approximately \$343,000, \$260,000 and \$316,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

### 4. BALANCE SHEET DETAILS

Equipment and leasehold improvements consists of the following (dollars in thousands):

	1997	1998
Equipment	\$ 3,576	\$ 4,727
Leasehold improvements	337	486
	3,913	5,213
Less accumulated depreciation and amortization	(2,051)	(2,896)
	\$ 1,862	\$ 2,317

Accounts payable and accrued expenses consists of the following (dollars in thousands):

	1997	1998
Trade accounts payable	\$11,937	\$19,492
Accrued licensing costs	30,810	38,040
Other accrued expenses	4,232	532
	\$46,979	\$58,064

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#### 5. INCOME TAXES

The provision for income taxes consisted of the following (dollars in thousands):

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
Current:			
Federal	\$ 502	\$ 984	\$ 332
State	275	386	77
Foreign	165	1,058	1,944
	942	2,428	2,353
Deferred:			
Federal	473	76	225
State	30	(54)	(7)
Foreign	(454)	(43)	(130)
	49	(21)	88
	\$ 991	\$ 2,407	\$ 2,441

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

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
<S>	<C>	<C>	<C>
Statutory rate applied to pretax income	\$ 1,084	\$ 2,166	\$ 2,000
Amortization of goodwill	39	40	69
State income taxes, net of benefit of federal income taxes	211	219	46
Foreign income taxes (benefit) over U.S. statutory rate	(350)	54	326
Other items	7	(72)	-
Income tax (benefit) expense	\$ 991	\$ 2,407	\$ 2,441

</TABLE>

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#### 5. INCOME TAXES (CONTINUED)

Significant components of the Company's deferred tax assets are as follows (dollars in thousands):

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
Fixed assets	\$ 4	\$ 4	\$ 633
Accruals and reserves	328	546	534
Net operating loss carryforwards	3,936	2,772	2,051
Credit carryforwards	25	16	32
Gross deferred tax assets	4,293	3,338	3,250
Valuation allowance	(976)		
Net deferred tax asset	\$ 3,317	\$ 3,338	\$ 3,250

The Company has recorded a U.S. deferred tax asset at December 31, 1998 of \$1,755,000 reflecting the benefit of \$5,160,000 in federal tax loss carryforwards, which expire in varying amounts between 2001 and 2005. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. The Company's ability to utilize the net operating loss carryforwards is restricted to approximately \$1.5 million per year, as a result of an ownership change pursuant to Section 382 of the Internal Revenue Code.

For financial reporting purposes, income before income taxes and minority interest includes the following components (dollars in thousands):

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
United States	\$3,010	\$3,543	\$1,504
Foreign	180	2,828	4,379
	\$3,190	\$6,371	\$5,883

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#### 5. INCOME TAXES (CONTINUED)

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$3,300,000 at December 31, 1998. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon.

During the years ended December 31, 1996, 1997 and 1998, the Company paid approximately \$483,000, \$1,492,000 and \$1,956,000, respectively, in income taxes.

#### 6. STOCK OPTION PLANS

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

On April 21, 1995, the Board of Directors adopted the Company's 1995 Employee Stock Plan ("1995 Plan"). The 1995 Plan, as amended on June 11, 1996, provides for the grant of options to purchase up to 462,500 shares of the Company's common stock to officers, directors, employees and consultants of the Company. The 1995 Plan requires that each option shall expire on the date specified by the Compensation Committee, but not more than ten years from its date of grant in the case of ISO's and Non-Qualified Options. Options granted under the plan are exercisable at an exercise price equal to but not less than the fair market value of the common stock on the grant date. ISO's generally vest in equal annual installments over five years.

On April 21, 1995, the Board of Directors adopted the Company's 1995 Non-Employee Director Plan ("1995 Director Plan"). The 1995 Director Plan provides for the grant of options to purchase up to 112,500 shares of the Company's common stock to persons who are members of the Company's Board of Directors and not employees or officers of the Company. The 1995 Director Plan requires that options granted thereunder will expire ten years from the date of grant. Each option granted under the 1995 Director Plan becomes exercisable over a five year period, and vests in an installment of 20% of the total option grant

upon the expiration of one year from the date of the option grant, and thereafter vests in equal quarterly installments of 5%.

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6. STOCK OPTION PLANS (CONTINUED)

FASB 123 requires pro forma information regarding net income and earnings per share as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1996, 1997 and 1998, respectively: risk free interest rates of 6.28%, 5.49% and 5.49%, dividend yields of 0% in all three periods, volatility factors of the expected market price of the Company's common stock of .61, .60 and .65, and a weighted-average expected life of the option of 9 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows (in thousands, except per share amounts):

	1996	1997	1998
	----	----	----
Net income as reported	\$2,298	\$3,964	\$3,442
Net income pro forma	1,902	3,395	2,649
Basic net income per share, as reported	\$.48	\$.84	\$.72
Basic net income per share, pro forma	\$.40	\$.72	\$.55
Diluted net income per share, as reported	\$.44	\$.75	\$.66
Diluted net income per share, pro forma	\$.38	\$.67	\$.52

The weighted average fair value of options granted during 1996, 1997 and 1998 is \$3.51, \$6.09 and \$6.54, respectively.

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6. STOCK OPTION PLANS (CONTINUED)

Changes during 1996, 1997 and 1998 in options outstanding for the combined plans were as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding at January 1, 1996	724,135	1.95
Granted in 1996	188,701	5.99
Canceled in 1996	(35,097)	5.80
Exercised in 1996	(83,975)	.36
	-----	
Outstanding at December 31, 1996	793,764	2.91
Granted in 1997	264,400	8.08
Canceled in 1997	(27,550)	5.13
Exercised in 1997	(31,075)	1.60
	-----	
Outstanding at December 31, 1997	999,539	4.30
Granted in 1998	349,150	6.51
Canceled in 1998	(34,035)	5.94
Exercised in 1998	(157,775)	1.90
	-----	
Outstanding at December 31, 1998	1,156,879	5.25
	=====	
Exercisable at December 31, 1998	616,182	4.24
	=====	

Stock options outstanding at December 31, 1998 are summarized as follows:

RANGE OF EXERCISE	OUTSTANDING OPTIONS AT	WEIGHTED AVERAGE REMAINING	WEIGHTED AVERAGE
-------------------	---------------------------	----------------------------------	------------------

PRICES	DECEMBER 31, 1998	CONTRACTUAL LIFE	EXERCISE PRICE
\$0.24	57,213	2.7	.24
.67 - 1.00	187,100	5.3	.80
4.00 - 6.00	268,526	6.5	4.65
6.25 - 8.63	577,900	9.4	6.68
9.00 - 12.94	66,140	8.6	12.08
	1,156,879		

Under the various plans, options that are cancelled can be reissued. At December 31, 1998 1,656,784 shares were reserved for future issuance.

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7. DEFINED CONTRIBUTION PLAN

Effective January 1, 1992, the Company initiated a defined contribution plan covering substantially all domestic employees. Participating employees may make contributions to the plan, through payroll deductions. Matching contributions are made by the Company equal to 50% of the employee's contribution to the extent such employee contribution did not exceed 6% of their compensation. During the years ended December 31, 1996, 1997 and 1998, the Company expensed approximately \$59,000, \$82,000 and \$79,000 respectively, related to this plan.

8. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share (dollars and shares in thousands):

	1996	1997	1998
<TABLE> <CAPTION>			
<S>	<C>	<C>	<C>
Numerator:			
Net income for basic and diluted net income per share	\$ 2,298	\$ 3,964	\$ 3,442
Denominator:			
Denominator for basic net income per share - weighted average common shares	4,764	4,740	4,797
Effect of dilutive securities: Employee stock options	434	540	452
Denominator for diluted net income per share - adjusted weighted average common shares and assumed conversion	5,198	5,280	5,249
Basic net income per common share	\$ .48	\$ .84	\$ .72
Diluted net income per common share	\$ .44	\$ .75	\$ .66

</TABLE>

For additional disclosures regarding the employee stock options and related stock option plans, see Note 6.

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9. COMMITMENTS

The Company leases the space used for its operations and certain equipment under long-term operating leases. Future minimum rental payments over the remaining terms of these leases are as follows (dollars in thousands):

1999	\$1,296
2000	993
2001	826
2002	541
2003	426
2004 and thereafter	1,689
	=====
	\$ 5,771
	=====

Rent expense for the years ended December 31, 1996, 1997 and 1998 was approximately \$752,000, \$1,075,000 and \$1,050,000, respectively.

The Company has royalty agreements, which require payments based on sale of



certain products. Royalty expense for the years ended December 31, 1996, 1997 and 1998 was approximately \$265,000, \$157,000 and \$141,000, respectively.

#### 10. INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION

The Company's single business segment is the marketing of technical software for microcomputers, servers and networking across geographically diverse marketplaces.

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Geographic financial information is as follows (dollars in thousands):

	1996	1997	1998
<b>Sales to Unaffiliated Customers:</b>			
North America	\$56,719	\$69,751	\$70,922
Europe	70,961	106,406	163,507
<b>Total</b>	<b>127,680</b>	<b>176,157</b>	<b>234,429</b>
<b>Income from operations by Geographic Areas:</b>			
North America	\$2,708	\$3,685	\$1,638
Europe	228	2,532	3,889
<b>Total</b>	<b>2,936</b>	<b>6,217</b>	<b>5,527</b>
<b>Identifiable Assets by Geographic Areas:</b>			
North America	\$30,320	\$30,250	\$35,854
Europe	38,170	56,118	69,023
<b>Total</b>	<b>68,490</b>	<b>86,368</b>	<b>104,877</b>

"North America" is comprised of the United States and Canada. "Europe" is comprised of Austria, France, Germany, Italy, the Netherlands and the United Kingdom.

#### 11. STATEMENT OF CASH FLOWS - SUPPLEMENTAL DISCLOSURES

The Company has made acquisitions, which are more fully described in Note 2. The purchase prices are allocated to the assets acquired and liabilities assumed based on their fair market values as follows (dollars in thousands):

	1996	1997	1998
<b>Fair value of assets acquired:</b>			
Current assets excluding cash	\$ 7,207	\$ 4,108	\$ -
Fixed assets	676	187	-
Other assets, principally goodwill	10,778	2,202	-
<b>Less liabilities assumed:</b>			
Current liabilities	7,248	4,229	-
Notes payable	177	-	-
Payable to seller	-	-	-
Common stock issued to seller	-	-	-
<b>Net cash paid</b>	<b>\$ 11,236</b>	<b>\$ 2,268</b>	<b>\$ -</b>

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#### 12. QUARTERLY RESULTS OF OPERATIONS

The following table presents summarized quarterly results for 1998 (in thousands, except per share data).

(UNAUDITED)

	FIRST	SECOND	THIRD	FOURTH
Revenues	\$53,193	\$50,780	\$54,461	\$75,995
Gross profit	6,514	6,506	6,707	9,461
Net earnings	760	338	680	1,665
Diluted net earnings per share	\$0.14	\$0.06	\$0.13	\$0.32

The following table presents summarized quarterly results for 1997 (in thousands, except per share data).

(UNAUDITED)

	FIRST	SECOND	THIRD	FOURTH
Revenues	\$38,940	\$39,099	\$36,882	\$61,236
Gross profit	5,903	6,202	5,422	8,179
Net earnings	885	936	763	1,381
Diluted net earnings per share	\$0.17	\$0.18	\$0.14	\$0.26

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

<TABLE>  
<CAPTION>

DESCRIPTION	BEGINNING BALANCE	CHARGED TO COST AND EXPENSE	CHARGED IN OTHER ACCOUNTS	DEDUCTIONS	ENDING BALANCE
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1996:					
Allowances for accounts receivable	\$777	223	441 (1)	417	\$1,024
Reserve for Obsolescence	\$623	28	294 (1)	481	\$464
Year ended December 31, 1997:					
Allowances for accounts receivable	\$1,024	326	32 (1)	432	\$950
Reserve for Obsolescence	\$464	220	130 (1)	62	\$752
Year ended December 31, 1998:					
Allowances for accounts receivable	\$950	674		444	\$1,180
Reserve for Obsolescence	\$752	311		585	\$478

</TABLE>

--  
(1) Arose from acquisitions.

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## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of July 14, 1998, by and between Programmer's Paradise, Inc., a Delaware corporation with offices at 1163 Shrewsbury Avenue, Shrewsbury, New Jersey 077002-4321 (the "Corporation"), and William H. Willett, an individual residing at 137 Rose Hill Road, Southport, Connecticut 06490 (the "Executive").

## W I T N E S S E T H:

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

1. Employment. The Corporation hereby agrees to employ the Executive in an executive capacity, and the Executive hereby accepts and agrees to such employment, commencing as of the date hereof, upon the terms and conditions hereinafter set forth.

2. Term. The term of the Executive's employment under this Agreement shall commence as of the date hereof and shall continue until the close of business on January 15, 2000, and shall automatically be renewed for twelve (12) months thereafter unless either party gives the other at least three (3) months prior written notice of termination, unless sooner terminated as provided elsewhere in this Agreement (the "Term").

3. Duties and Services. The Executive agrees to serve the Corporation as Chairman of the Board, President and Chief Executive Officer of the Corporation and shall also serve such of its subsidiaries and affiliated companies as may be designated by the Corporation, faithfully, diligently and to the best of his ability, subject to and under the direction and control of the Board of Directors of the Corporation, devoting his entire business time, energy and skill to such employment, and to perform from time to time such executive services, advisory or otherwise, as the Board of Directors shall request, and to act in such capacities or other offices for the Corporation and for any of its subsidiary or affiliated companies as the Board of Directors shall request without further compensation other than that for which provision is made in this Agreement.

4. Compensation. (a) The Corporation agrees to pay to the Executive, and the Executive agrees to accept, a basic salary for all his services (the "Salary") at the rate of \$225,000 per annum, payable in accordance with the Corporation's standard payroll policies from time to time.

(b) On the morning of July 24, 1998, the Executive shall be granted options to purchase 200,000 shares of Common Stock of the Corporation under the Corporation's 1995 Stock Plan, at an exercise price equal to the fair market value on the date of grant ("FMV"), 100,000 of which shall vest (subject to continued employment) in twelve (12) equal tranches on the first day of each month beginning on the first day of the first month after the date hereof, and an additional 100,000 of which shall vest (subject to continued employment) in six (6) equal tranches

on the first day of each month beginning with the month after the expiration of such twelve-month period, and shall be subject to acceleration in the event of a Change of Control (as hereinafter defined), and shall also be subject to the terms and conditions of the applicable option grant agreement and of the 1995 Stock Plan.

(c) If there shall be a Change or Control prior to the termination of the employment period, the Corporation agrees to pay to the Executive a bonus equal to the amount, if any, by which (x) the product of the value per share received by shareholders of the Corporation in connection with such Change of Control, times 50,000, exceeds (y) the FMV (as defined above) of 50,000 shares of Common Stock of the Corporation as of July 24, 1998.

(d) For purposes hereof, a "Change of Control" shall be deemed to have occurred in the event of any of the following (i) any person or entity makes a tender or exchange offer for shares of the Corporation's Common Stock pursuant to which such person or entity acquires a majority of the issued and outstanding shares of the Corporation's Common Stock, (ii) the Corporation merges or consolidates with or into another corporation or corporations, unless immediately after such merger or consolidation those persons and entities who immediately prior to such transaction were stockholders of the Corporation are

entitled to vote in the election of directors, or otherwise have the right to elect, a majority of the directors of the surviving Corporation, (iii) the Corporation sells, transfers or otherwise disposes of all of substantially all of its assets, other than to a direct or indirect subsidiary, (iv) any person or entity acquires a majority of the Corporation's issued and outstanding voting securities and shall be entitled to vote in the election of directors, or otherwise have the right to elect, a majority of the directors of the Corporation, or (v) pursuant to paragraph 13(b) of the Corporation's 1995 Stock Plan, the date of exercise of options granted thereunder shall be accelerated.

(e) If the Executive shall be employed by the Corporation on January 15, 2000, then, within thirty (30) days after such date, the Corporation agrees to pay to the Executive a performance bonus equal to the amount, if any, of the product of (x) 50,000 and (y) the amount, if any, by which (1) the FMV of a share of Common of the Corporation on January 15, 2000 exceeds the FMV of a share of Common Stock of the Corporation on July 24, 1998.

5. Employee Benefits. (a) The Corporation shall reimburse the Executive for the reasonable business expenses incurred by him for or on behalf of the Corporation in furtherance of the performance of his duties hereunder. Such reimbursement shall be subject to receipt by the Corporation from the Executive of such an expense statements and such vouchers and other reasonable verifications as the Corporation shall require to satisfactorily evidence such expenses, and shall also be subject to such policies as the Corporation shall establish from time to time.

(b) The Executive shall be entitled to participate, in accordance with the terms thereof, in employee benefit plans and programs maintained for the executives of the Corporation, including, without limitation, any health, hospitalization and medical insurance programs and in any pension or retirement or other similar plans or programs. The foregoing shall not be construed to require the Corporation to establish any such plans or programs, or to prevent the Corporation from modifying or terminating any such plans or programs once established.

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(c) The Executive shall be entitled to six (6) weeks of vacation each employment year during the term of this Agreement, taken consecutively or in segments, subject to the effective discharge of the duties of the Executive hereunder.

(d) During the term of the Executive's employment hereunder, the Corporation shall afford the Executive the use of a [full-size] automobile, chosen by the Executive and reasonably satisfactory to the Corporation, and a cellular telephone. The Corporation shall bear the cost of maintaining the automobile in good and efficient working order and repair, shall be responsible for normal upkeep thereof and shall bear the cost of incidental operating expenditures such as gasoline, oil and tires. The Corporation further agrees to secure and pay for insurance of such type and in such amounts as the Corporation may deem appropriate, such insurance coverage to include liability coverage for the benefit of the Executive. The Corporation shall also bear the cost of a service contract for the cellular telephone, as well as all monthly charges and charges in respect of calls incident to the performance of the duties of the Executive and tax and related charges.

(e) The Executive shall be entitled to use the Corporation's New Jersey apartment as his residence, unless and until the Executive moves to a location within a reasonable commuting distance from the offices of the Corporation; provided that the Executive shall not be required to so relocate.

6. Termination of Benefits. (a) Notwithstanding anything to the contrary contained herein, the Executive's employment with the Corporation, as well as the Executive's right to any compensation which thereafter otherwise would accrue to him hereunder or in connection therewith, shall terminate upon the earliest to occur of the following events:

(i) the death or disability (as defined below) of the Executive,

(ii) the expiration of the Term of this Agreement,

(iii) the Executive's termination of such employment, or

(iv) upon delivery of written notice, with or without "cause" (as defined below), to the Executive from the Corporation of such termination.

(b) For the purpose of this Section 6, (i) the term "cause" is defined as (A) the commission by the Executive of a felony or an offense involving moral turpitude, the Executive's engaging in theft, embezzlement, fraud, obtaining funds or property under false pretenses, or similar acts of misconduct with

respect to the property of the Corporation or its employees, stockholders, affiliates, customers, licensees, licensors or suppliers, (B) the repeated failure by the Executive to perform his duties hereunder or comply with reasonable policies or directives of the Board of Directors of the Corporation, or (C) the breach of this Agreement or the Conditions of Employment by the Executive in any material respect, and (ii) the Executive shall be deemed "disabled" if, at the Corporation's option, it gives notice to the Executive or his representative that due to a disabling mental or physical condition, he has been prevented, for a continuous period of 90 days during the

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Term or for an aggregate of 120 days during any six month period during the Term, from substantially performing those duties which he was required to perform pursuant to the provisions of this Agreement prior to incurring such disability.

(c) In the event of and upon the termination by the Corporation of the employment of the Executive under this Agreement without "cause" or the giving by the Corporation of notice of non-renewal of this Agreement pursuant to Section 2, in addition to the Salary and other compensation (including cash and stock bonuses, incentive and performance compensation) earned hereunder and unpaid or not delivered through the date of termination and any benefits referred to in Section 5(b) hereof in which the Executive has a vested right under the terms and conditions of the plan or program pursuant to which such benefits were granted (without regard to such termination), (i) the Corporation shall pay the Executive a cash payment (the "Severance Payment") equal to \$112,500, (ii) all stock options and stock awards shall vest and become exercisable immediately prior to termination and remain exercisable through their original terms with all rights, (iii) the Corporation shall pay the Executive, within thirty (30) days after the date of termination of such employment, the performance bonus contemplated by Section 4(e) above, based on the difference between the FMV of shares of Common Stock of the Corporation as of the date of such termination and as of July 24, 1998 and (iv) the Executive shall be entitled to purchase the automobile used by him, as contemplated by Section 5(d) hereof, at the "buy-out" price of any lease of the Corporation with respect to such automobile, or if such automobile shall be owned by the Corporation, at the fair market value of such automobile as of the date of payment. In the event of termination of this Agreement by the Corporation by reason of the death or disability of the Executive, the Corporation shall not be obligated to make the Severance Payment to the Executive if the Corporation provided the Executive with life insurance or disability insurance, as the case may be, payable to one or more beneficiaries designated by the Executive at the time of his death or disability in an amount providing to the Executive a benefit at least equal thereto. After termination of employment for any reason other than death of the Executive, the Corporation shall continue to provide all benefits subject to COBRA at its expense for the maximum required COBRA period. The Severance Payment shall be paid to the Executive or his estate in [six (6) consecutive, equal monthly installments, on the fifteenth day of each calendar month commencing during the month next following the month in which the Executive is no longer employed by the Corporation], and shall be in lieu of any other claim to severance or similar payments or benefits which the Executive may otherwise have or make. Without limiting any other rights or remedies which the Corporation may have, it is understood that the Corporation shall be under no further obligation to make any such severance payments and shall be entitled to be reimbursed therefor by the Executive or his estate if the Executive violates any of the covenants set forth in the Conditions of Employment attached as Exhibit A hereto. In the event that the Severance Payment shall become payable to the Executive, the Executive shall not be required, either in mitigation of damages or by the terms of any provisions of this Agreement or otherwise, to seek or accept other employment, and if the Executive does accept other employment, any benefits or payments under this Agreement shall not be reduced by any compensation earned or other benefits received as a result of such employment.

7. Deductions and Withholding. The Executive agrees that the Corporation shall withhold from any and all payments required to be made to the Executive pursuant to this Agreement

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(including the travel allowance) all federal, state, local and/or other taxes which are required to be withheld in accordance with applicable statutes and/or regulations from time to time in effect.

8. Non-Solicitation, Restrictive Covenants, Confidentiality and Injunctive Relief. (a) The Executive shall execute and deliver to and for the benefit of the Corporation, the Conditions of Employment attached as Exhibit A hereto, pertaining, among other matters, to proprietary information, confidentiality obligations, and non-competition obligations, the provisions of which shall be deemed incorporated herein by reference as if set forth herein (the "Conditions of Employment").

(b) The provisions of this Section 8 shall survive the termination or expiration of this Agreement, irrespective of the reason therefor, including under circumstances in which the Executive continues thereafter in the employ of the Corporation.

9. Warranty. The Executive warrants and represents that he is not a party to any agreement, contract or understanding, whether of employment or otherwise, which would in any way restrict or prohibit him from undertaking his position as an executive of the Corporation and complying with his obligations in accordance with the terms and conditions of this Agreement and the Conditions of Employment.

10. Insurance. The Executive agrees that the Corporation may from time to time and for the Corporation's own benefit apply for and take out life insurance covering the Executive, either independently or together with others, in any amount and form which the Corporation may deem to be in its best interests. The Corporation shall own all rights in such insurance and in the cash values and proceeds thereof and the Executive shall not have any right, title or interest therein. The Executive agrees to assist the Corporation, at the Corporation's expense, in obtaining any such insurance by, among things, submitting to customary examinations and correctly preparing, signing and delivering such applications and other documents as reasonably may be required. Nothing contained in this Section 10 shall be construed as a limitation on the Executive's right to procure any life insurance for his own personal needs.

11. Notices. All notices shall be in writing and shall be deemed to have been duly given to a party hereto on the date of such delivery, if delivered personally, or on the third day after being deposited in the mail if mailed via registered or certified mail, return receipt requested, postage prepaid, or on the next business day after being sent by recognized national overnight courier service, in the case of the Executive at his current address as set forth in the Corporation's records, and in the case of the Corporation, at its address set forth above.

12. Assignability and Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the heirs, executors, administrators, successors and legal representatives of the Executive, and shall inure to the benefit of and be binding upon the Corporation and its successors and assigns. The Executive may not assign, transfer, pledge, encumber, hypothecate or otherwise dispose of this Agreement, or any of his rights or obligations hereunder, and any such attempted delegation or disposition shall be null and void and without effect.

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13. Severability. In the event that any provisions of this Agreement would be held to be invalid, prohibited or unenforceable in any jurisdiction for any reason (including, but not limited to, any provisions which would be held to be unenforceable because of the scope, duration or area of its applicability), unless narrowed by construction, this Agreement shall, as to such jurisdiction only, be construed as if such invalid, prohibited or unenforceable provision had been more narrowly drawn so as not to be invalid, prohibited or unenforceable (or if such language cannot be drawn narrowly enough, the court making any such determination shall have the power to modify such scope, duration or area or all of them, but only to the extent necessary to make such provision or provisions enforceable in such jurisdiction, and such provision shall then be applicable in such modified form). If, notwithstanding the foregoing, any provision of this Agreement would be held to be invalid, prohibited or unenforceable in any jurisdiction, such provision shall be ineffective to the extent of such invalidity, prohibition or unenforceability, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New Jersey, without regard to principles of conflict of laws and regardless of where actually executed, delivered or performed.

15. Complete Understanding; Counterparts. This Agreement constitutes the complete understanding and supersedes any and all prior agreements and understandings between the parties with respect to its subject matter, and no statement, representation, warranty or covenant has been made by either party

with respect thereto except as expressly set forth herein. This Agreement shall not be altered, modified, amended or terminated except by written instrument signed by each of the parties hereto. The Section and paragraph headings contained herein are for convenience only, and are not part of and are not intended to define or limit the contents of said Sections and paragraphs. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

PROGRAMMER'S PARADISE, INC.

By: \_\_\_\_\_

\_\_\_\_\_  
William H. Willett

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Exhibit A  
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PROGRAMMER'S PARADISE, INC.  
CONDITIONS OF EMPLOYMENT  
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As an inducement to Programmer's Paradise, Inc. (the "Corporation") to employ (the "Employee"), and in consideration of the employment and continued employment of the Employee by the Corporation and the compensation and other benefits paid or to be paid to the Employee and the stock options to be issued to the Employee, it is understood and agreed as follows:

1. The Employee acknowledges and agrees that Employee's employment with the Corporation will necessarily involve the Employee's understanding of and access to trade secrets and confidential or other proprietary information of or pertaining to the organization, business and affairs of, or developed or acquired for or by, the Corporation and/or its Affiliates (as hereinafter defined) or their clients, licensees and distributors, including without limitation, information relating to computer software and programs, policies, operational methods, research, data, marketing plans and opportunities, procedures, strategies, mailing lists, data bases, client lists, notations of clients (in or as part of a rolodex, mailing list or in any other form) and forecasts of the Corporation and/or its Affiliates or any client of the Corporation and/or its Affiliates ("Proprietary Information"), and understands that the Employee will enjoy a special position of trust and confidence with the Corporation. Accordingly, the Employee agrees that the Employee will keep secret all Proprietary Information and will not, directly or indirectly, either during the term of the Employee's employment by the Corporation or at any time thereafter, disclose or disseminate to any person or entity not expressly approved by the President of the Corporation as an authorized recipient thereof, or make use of, for any purpose whatsoever, any Proprietary Information of the Corporation and/or its Affiliates or any client of the Corporation and/or its Affiliates. AS IT IS SOMETIMES DIFFICULT TO SEPARATE PROPRIETARY INFORMATION FROM THAT WHICH IS NOT, THE EMPLOYEE WILL REGARD ALL INFORMATION GAINED AS A RESULT OF THE EMPLOYEE'S ASSOCIATION WITH THE CORPORATION AS PROPRIETARY INFORMATION.

The preceding paragraph, however, shall not apply to disclosure of information (i) which at the time of disclosure to the Employee was in the public domain, or (ii) which at the time of disclosure to the Employee the Employee proves was already known to the Employee from other sources and capable of being used or disclosed by the Employee, as the case may be, free of any other agreements or restrictions. For purposes hereof, the term "Affiliates" shall include all entities or persons controlling, controlled by, or under common control with, the Corporation.

The Employee agrees that the Corporation may from time to time adopt rules and regulations regarding the manner in which Proprietary Information is treated. In such event, the Employee will comply with all such rules and regulations in addition to, but not in limitation of, the Employee's obligations hereunder.

2. Title to all documentation containing any Proprietary Information, whether or not developed or produced by the Employee (including the ideas and concepts contained therein), is and

shall remain vested in the Corporation and its Affiliates. Without limiting the generality of the foregoing, the Employee shall not make any copies of and/or remove from the premises of the Corporation any such documentation without specific authorization. The Employee will not leave any such documentation accessible to unauthorized persons at any time, and shall take all reasonable steps to prevent documentation (including the ideas and concepts contained therein) from being used by or disclosed to anyone who is not authorized to use or receive same. The Employee will deliver promptly to the Corporation on termination of the Employee's employment by the Corporation, or at any sooner time it may request, all such documentation and all other assets and materials which belong to the Corporation or its Affiliates, which the Employee then possesses or has under the Employee's control.

3. The Employee will promptly and fully disclose to the President of the Corporation all opportunities and/or information which is or may be useful or relate to the Corporation and/or its Affiliates or any aspect of their business that the Employee (individually or jointly with others) may discover, conceive of, make, invent, develop, suggest, assemble, reduce to practice or acquire during the period of or in connection with the Employee's employment by the Corporation (collectively "Information"), all of which shall be the sole, exclusive and absolute property of the Corporation. The Employee agrees and acknowledges that all Information shall constitute Proprietary Information.

4. The Employee shall have no authority to make any representation, warranty, guarantee, agreement or promise concerning the Corporation or its Affiliates, or the business of the Corporation or its Affiliates, unless specifically approved by the President of the Corporation, and any such unapproved representation, warranty, guarantee, agreement or promise shall not be valid or binding on the Corporation or its Affiliates. The Employee shall at all times comply with all relevant laws, including, without limitation, all foreign, federal and state laws, and all policies and procedures of the Corporation.

5. During any period that the Employee is employed by the Corporation and thereafter, (i) for a period of [two (2) years] in the event that Executive shall terminate his employment or the Executive's employment shall be terminated by the Corporation for "cause" (as defined in the Executive's employment agreement), or (ii) for a period of [one (1) year] in the event that the Corporation shall terminate the Executive's employment without "cause", the Employee will not directly or indirectly under any circumstance whatsoever:

(a) solicit, raid, entice or induce any person or entity which presently is, or at any time during the period of the Employee's employment has been or shall be, or has been or shall be solicited or contacted by the Corporation and/or its Affiliates to become, a client, customer, distributor or licensee of the Corporation and/or its Affiliates, to become a client, customer, distributor or licensee of any person or entity (other than the Corporation and its Affiliates) with respect to any business, product or services of the type, or competitive with those, provided, sold, licensed or offered by the Corporation and/or its Affiliates at any time during the period of the Employee's employment with the Corporation, or attempt in any manner to persuade any such person

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or entity to cease to do business or to reduce the amount of business which such person or entity has customarily done or contemplates doing with the Corporation and/or its Affiliates;

(b) compete, engage or participate in, or become employed by, or render any services in connection with, any business that competes, in any manner with the business of the Corporation, in any of the geographical markets served by the Corporation, operated or managed or then proposed to be acquired, operated or managed by the Corporation or any of its Affiliates during the term of the Employee's employment with the Corporation or directly or indirectly have any interest in, as owner, stockholder, partner, director, officer, member, employee, consultant or otherwise, any business which is competitive with, or sells, provides or licenses products or services of the type competitive with those sold, provided and licensed by the Corporation during the term of Employee's employment with the Corporation; provided, however, that the Employee may hold not more than 5% of the outstanding securities of any such corporation listed on a national securities exchange;



(c) make any disparaging statement concerning the Corporation or its Affiliates, or the management, the Board of Directors, management decisions, operating policies or Board decisions or actions of the Corporation or its Affiliates, whether or not libelous or defamatory;

(d) wilfully interfere with or otherwise jeopardize any relationship of the Corporation and/or its Affiliates with any client, distributor, licensee or licensor; or

(e) employ, attempt to employ or arrange to have any other person or entity employ, any person, who is or was, during the two-year period ending on the date of termination of the Employee's employment, in the employ of the Corporation or its Affiliates, or induce any such person to leave the employ of the Corporation or its Affiliates.

6. The Employee represents and warrants that the Employee is not a party to any agreement, contract or understanding, whether of employment, consultancy or otherwise, in conflict with these Conditions of Employment or which would in any way restrict or prohibit the Employee from undertaking or performing services for the Corporation. The Employee hereby acknowledges that he has not foregone any other opportunity, financial or otherwise, in connection with commencing or rendering his services to the Corporation. The Employee hereby authorizes the Corporation and/or its Affiliates to make known the terms of these Conditions of Employment and the fact of the Employee's responsibility under these Conditions of Employment to any person or entity, including, without limitation, clients of the Corporation and/or its Affiliates and the Employee's future employers.

7. (a) By reason of the fact that irreparable harm would be sustained by the Corporation and/or its Affiliates in the event that there is a breach by the Employee of any of the terms, covenants and agreements set forth herein, in addition to any other rights that the Corporation and/or its Affiliates may otherwise have, the Corporation and/or its Affiliates shall be entitled to apply to any court of competent jurisdiction and obtain specific performance and/or injunctive relief against the Employee, without making a showing that monetary damages would be inadequate and

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without the requirement of posting any bond or other security whatsoever, in order to enforce or prevent any breach or threatened breach of any of the terms, covenants and agreements set forth herein, and the Employee will not object thereto.

(b) Nothing contained in these Conditions of Employment shall be construed as a contract of employment or engagement by or with the Corporation or any Affiliate nor shall anything contained in these Conditions of Employment impose any obligation upon the Corporation or any Affiliate to continue the Employee's employment or engagement to pay the Employee any compensation. Each of the obligations of the Employee under this agreement shall survive the termination of the Employee's employment by the Corporation for any reason whatsoever.

(c) The Employee acknowledges that: (i) the enforcement of any of the restrictions on the Employee or any other provisions contained in these Conditions of Employment (the "Restrictive Covenants") against the Employee would not impose any undue burden upon the Employee; and (ii) none of the Restrictive Covenants is unreasonable as to duration or scope. If notwithstanding the foregoing, any provision herein would be held to be invalid, prohibited or unenforceable in any jurisdiction for any reason (including, but not limited to, any provision which may be held unenforceable because of the scope, duration or area of its applicability), unless narrowed by construction, such Restrictive Covenant shall, as to such jurisdiction, be construed as if such invalid, prohibited or unenforceable provision had been more narrowly drawn so as not to be invalid, prohibited or unenforceable (and the court making any such determination as to any provision shall have the power to modify such scope, duration or area or all of them, and such provision shall then be applicable in such modified form in such jurisdiction only). If, notwithstanding the foregoing, any provision herein would be held to be invalid, prohibited or unenforceable in any jurisdiction for any reason, such provision, as to such jurisdiction, shall be ineffective to the extent of such invalidity, prohibition or unenforceability, without invalidating the remaining provisions of this agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

(d) These Conditions of Employment shall inure to the benefit of the Corporation and its Affiliates, and their respective successors and assigns and shall be binding upon the Employee and the Employee's heirs, executors, administrators and other legal representatives and successors. These Conditions of Employment shall be governed by and construed in accordance with the internal

laws of the State of New Jersey applicable to contracts made and to be entirely performed in New Jersey (without giving effect to contrary rules as to conflict of laws). These Conditions of Employment (and any written employment agreement executed and delivered by the Corporation) sets forth the parties' entire agreement with respect to its subject matter. No provisions of this agreement may be changed, terminated, or waived, or addenda or other provisions added except by a writing signed by each of the parties hereto. No waiver of any provision in one instance shall be a waiver of such provision in other instances or a waiver of any other provision. Wherever the context so requires, the masculine includes the feminine and the neuter genders, and the singular includes the plural, and vice versa.

Accepted and Agreed:

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Date: \_\_\_\_\_, 1998

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Name:

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EMPLOYMENT AGREEMENT  
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This Employment Agreement ("Agreement") is made as of the 9th day of June, 1998, by and between Programmer's Paradise, Inc., a Delaware corporation having its principal place of business at 1163 Shrewsbury Avenue, Shrewsbury, New Jersey (the "Company") and John Broderick, a resident of Brielle, New Jersey ("Executive").

WHEREAS, the Company desires to continue to employ Executive and Executive desires to continue to be employed by the Company, and the Board of Directors of the Company (the "Board of Directors") has determined that it is in the best interests of the Company and its shareholders to formalize the employment relationship pursuant to this Agreement; and

WHEREAS, the Board of Directors has further determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication and focus of Executive throughout any changes the Company may make, and to make certain provisions therefor to assure continued stability to both the Company and Executive.

NOW, THEREFORE, in consideration of the mutual premises contained herein, the Company and the Executive mutually agree as follows:

1. Employment. The Company agrees to continue Executive's employment and Executive agrees to serve the Company faithfully, diligently and to the best of his ability as Senior Vice President and Chief Financial OFFICER, pursuant to the primary responsibilities and goals set forth in the position description attached to this Agreement as Exhibit A. Executive agrees to assume other roles and responsibilities as mutually agreed to from time to time in writing by the Company and Executive. Executive agrees to devote his full business time, energy, attention and skill to such employment and agrees not to, directly or indirectly, engage or participate in, or become employed by, or become a director, officer, or partner of, or provide services for compensation to or in connection with, any business activity other than that of the Company, except as may be specifically permitted in writing by the President of the Company.

2. Employment At-Will. Executive's employment with the Company (the "Employment Period") is at-will; the Company may terminate Executive's employment at any time and for any reason, with other terms and provisions of termination to be in accordance with this Agreement.

3. Salary. During the Employment Period, the Company will pay Executive a base salary of \$12,917 per month, payable twice a month in accordance with the regular payroll practices of the Company, and subject to any increases as may be determined by the Board of Directors.

4. Bonus Plan. During the Employment Period, Executive will be a participant in the Company management bonus program which will be funded and paid at the discretion of the Board of Directors upon the Company and management employees meeting such goals, including net income goals, as are set forth by the Compensation Committee of the Board of Directors, and Executive will also be entitled to receive such other bonuses in such amounts and on such terms as may be determined by the Board of Directors.

5. Stock Options. Executive has been previously granted stock options for shares of common stock of the Company, all of which shall continue according to their terms. Nothing in this Agreement shall be construed to affect such stock option grants in any way, and nothing in this Agreement shall be construed to impose any obligation upon the Company with respect to Company stock or options therefor.

6. Benefit Plans. During the Employment Period, Executive will be entitled to participate in the Company's benefit plans and programs applicable generally to other employees or executives similarly situated with the Company, including medical and health care plans, life insurance, disability and a 401(k) plan, consistent with the terms of such plans and programs.

7. Vacation. Executive shall be entitled to four (4) weeks annual vacation, to be accrued and taken in accordance with the vacation policy of the Company for similarly situated employees or executives.

8. Expenses. The Company will reimburse Executive for all reasonable business expenses incurred by Executive in the performance of Executive's duties for the Company, upon Executive's presentation to the Company of expense statements, vouchers or other supporting information, in accordance with Company practices.

9. Confidentiality and Non-Competition. Executive has previously executed an

agreement entitled "Conditions of Employment," a copy of which is attached hereto as Exhibit B, which contains express provisions regarding confidentiality and non-competition (the "Confidentiality Agreement"). As further consideration for this Agreement, and as a further inducement to the Company to enter into this Agreement, Executive and the Company hereby acknowledge and reaffirm the Confidentiality Agreement, and agree that the Confidentiality Agreement and all terms, provisions and conditions of the Confidentiality Agreement shall continue in full force and effect according to their terms.

10. Termination of Employment. Executive's employment shall terminate (a) upon the discretion of the Company on not less than thirty (30) days prior written notice, unless the Company terminates Executive for Cause, as defined in Paragraph 11; (b) upon the death or permanent disability of Executive; or (c) upon not less than sixty (60) days prior written notice to the Company by Executive.

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a. General Severance. If Executive's employment is terminated solely upon the discretion of the Company pursuant to (a), for any reason other than for Cause, as defined in Paragraph 11, and except as provided in Paragraph 12 in the event of a Change of Control, Executive will be entitled to all amounts payable through the date of termination, including pro-rated salary and accrued vacation earned but not yet paid and any earned but unpaid bonus, the availability and pro rate calculation of which shall be as determined at the discretion of the Board of Directors, plus severance according to the following formula:

- (i) A base severance of twelve (12) months.
- (ii) Executive also shall be entitled to continue his participation in the Company's group medical plan and other benefit plans of the Company, provided that, to the extent that, and as long as continued participation is permitted under the terms and provisions of such plans, until either the end of the total severance term per 10.a.(i) above or until Executive becomes eligible to participate in another employer's group medical, insurance and retirement plan benefits, whichever is sooner.
- (iii) All severance payments will be made prospectively on usual Company paydays twice monthly at usual salary rates until the entire severance is paid or until alternative employment is achieved, whichever is sooner. During this severance period, Executive agrees to pursue aggressively alternative full-time employment opportunities.

b. Death or Voluntary Resignation. In the event of Executive's death during the Employment Period, or Executive's voluntary resignation, Executive or Executive's legal representative(s) will be entitled to all amounts payable through the last date of employment, including pro-rated salary earned but not yet paid and any earned but unpaid bonus, the availability and pro rate calculation of which shall be as determined at the discretion of the Board of Directors.

11. Termination for "Cause." "Cause" shall mean the willful neglect of Executive's duties which remains uncured for thirty (30) days after Executive receives written notice thereof; Executive's conviction of a felony involving moral turpitude; or any act of fraud or embezzlement by Executive involving the Company. The Company may terminate Executive's employment for Cause at any time, without prior written notice. If the Company terminates Executive's employment for Cause, it shall have no further obligations to Executive under this Agreement.

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12. Change of Control. Notwithstanding any provision in this Agreement to the contrary, in the event that (a) any person or entity makes a tender or exchange offer for shares of the Company's common stock pursuant to which such person or entity acquires 25% or more of the issued and outstanding shares of the Company's common stock, (b) the Company merges or consolidates with or into another corporation or corporations, (c) the Company sells, transfers or otherwise disposes of all or substantially all of its assets, or (d) any person or entity acquires more than 25% of the Company's issued and outstanding voting securities (any of which events shall constitute a "Change of Control" under this Agreement), and employment is terminated thereafter, Executive shall receive pro-rated salary earned but not yet paid and any earned but unpaid bonus, the availability and pro rata calculation of which shall be as determined at the discretion of the Board of Directors, plus severance according to the following:

- a. If during the first six months following Change of Control, Executive's employment is terminated solely upon the discretion of the Company pursuant to any reason other than for Cause, Executive will be entitled to all amounts payable through the date of termination, including pro-rated salary earned but not yet paid, accrued vacation, and any earned but unpaid bonus plus a lump sum payment equal to twelve months of severance plus benefits coverage per paragraph 10.(ii) above.
- b. If Executive elects, for any reason, to terminate employment with the Company within the first six (6) months upon Change of Control and on at least thirty (30) days prior written notice, a total severance of six (6) months base salary will be due.
- c. If Executive elects, for any reason, to terminate employment with the Company or its successor at any time no earlier than six (6) months and no later than twelve (12) months after a Change of Control upon at least sixty (60) days prior written notice, a total severance of nine (9) months base salary will be due. Severance payments will be made prospectively on usual Company paydays twice monthly at usual salary rates until the entire severance is paid or until alternative employment is achieved, whichever is sooner. During any severance period, Executive agrees to pursue aggressively alternative full-time employment opportunities. Executive also shall be entitled to continue his participation in the Company's group medical plan and other benefit plans of the Company during the above severance periods, provided that, to the extent that, and as long as continued participation is permitted under the terms and provisions of such plans, until Executive becomes eligible to participate in another employer's group medical, insurance and retirement plan benefits, whichever is sooner.
- d. If the Company or its successor terminates Executive's employment for Cause pursuant to Paragraph 11 of this Agreement, there shall be no further obligations to Executive under this Agreement.

13. Binding Effect; Successors. This Agreement is binding upon and shall inure to the

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benefit of the parties hereto, and their respective heirs, legal representatives, successors and assigns, subject to the following:

- a. This Agreement is personal to Executive and shall not be assigned by him.
- b. The Company will require any successor in a Change of Control to assume expressly and agree to perform this Agreement.

14. Notice. All notices required or permitted to be given under this Agreement shall be given in writing and shall be deemed sufficiently given if delivered by hand or mailed by registered mail, return receipt requested, to Executive's respective address and the principal offices of the Company, both listed above. By giving notice to the other party in accordance with this Paragraph, each party may change the address at which it is to receive notices hereunder.

15. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey.

16. Arbitration. Except for any rights the Company may have to apply to a court of competent jurisdiction for specific performance or injunctive relief, including but not limited to enforcement of the Confidentiality Agreement, any other dispute arising or relating to the interpretation, validity, or performance of this Agreement and any other dispute arising out of this Agreement which cannot be resolved by the parties shall, upon thirty (30) days' written notice by either party, be settled upon application of any such party by arbitration in the County of Monmouth, New Jersey, or in reasonably close proximity thereto, in accordance with the prevailing National Rules for the Resolution of Employment Disputes of the American Arbitration Association (AAA), and judgment upon the award rendered by the arbitrator may be entered in any court of competent jurisdiction. The arbitration filing fee shall be advanced by the initiating party and all other AAA administrative fees under this Paragraph shall be shared equally by the parties to such a dispute, subject to apportionment by the arbitrator in the award.

17. Independent Advice. Executive acknowledges that Executive has had the opportunity to evaluate this Agreement independently and with Executive's own professional advisors, and has not received and is not relying upon legal, tax or other professional advice from or on behalf of the Company in connection with entering into this Agreement.

18. Paragraph Headings. All paragraph headings are included herein for

convenience and are not intended to affect in any way the meaning or interpretation of this Agreement.

19. Severability. In the event any provision of this Agreement is found to be invalid or unenforceable, such provision shall be severable from the Agreement and shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

20. Entire Agreement. This Agreement constitutes the entire agreement between the parties as to employment by the Company of Executive and may only be changed by a written document

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signed by both parties. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

21. Prior Agreements. This Agreement hereby revokes, replaces and supersedes any prior Employment Agreement between the Company and Executive.

In witness whereof, the parties have executed this Agreement, the Company acting herein by its duly authorized officer.

PROGRAMMER'S PARADISE, INC.

BY:

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Roger Paradis  
President

JOHN BRODERICK

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John Broderick

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## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of \_\_\_\_\_, 1998, by and between Programmer's Paradise, Inc., a Delaware corporation with offices at 1163 Shrewsbury Avenue, Shrewsbury, New Jersey 07702-4321 (the "Corporation"), and Peter Lorenz, an individual residing at 16540 Southwest 84th Avenue, Miami, Florida 33157 (the "Executive").

## W I T N E S S E T H:

In consideration of the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

1. Employment. The Corporation hereby agrees to employ the Executive in an executive capacity, and the Executive hereby accepts and agrees to such employment, upon the terms and conditions hereinafter set forth.

2. Term. The term of the Executive's employment under this Agreement shall commence as of December 1, 1998 (the "Effective Date") and shall continue until the close of business on December 31, 1999, and shall automatically be renewed on the same terms and conditions for successive additional terms of twelve (12) months unless terminated by either party upon written notice to the other not less than thirty (30) days prior to the expiration of the initial twelve-month term or of any twelve-month renewal term thereafter (the initial term and, if the period of employment is so renewed, such additional period or periods of employment are collectively referred as the "Term"), unless sooner terminated as provided elsewhere in this Agreement.

3. Duties and Services. (a) The Executive agrees to serve the Corporation as an Executive Vice President of the Corporation and shall also serve such of its subsidiaries and affiliated companies as may be designated by the Corporation, faithfully, diligently and to the best of his ability, subject to and under the direction and control of the Board of Directors of the Corporation, the President of the Corporation and their authorized designees, devoting his entire business time, energy and skill to such employment, and to perform from time to time such executive services, advisory or otherwise, as the Board of Directors, the President of the Corporation or their authorized designee shall request, and to act in such capacities or other offices for the Corporation and for any of its subsidiary or affiliated companies as the Board of Directors, the President of the Corporation or their authorized designee shall request without further compensation other than that for which provision is made in this Agreement. The Executive shall be primarily responsible for German operations and all corporate sales in the United States.

(b) The principal place of employment of the Executive shall be at the corporate offices of the Corporation in Shrewsbury, New Jersey, or such other new offices of the Corporation as shall be determined by the Board of Directors, provided that any such new office will not be located at a place which would significantly extend the commuting or travelling time of the

Executive beyond a reasonable amount of time unless the Corporation shall relocate the Executive and his wife. Any such relocation shall be at the expense of the Corporation. The Executive's responsibilities to the Corporation shall require the Executive to spend at least four days a week at such corporate offices. It is understood, however, that in connection with his duties under this Agreement, the Executive may be required to travel to and perform services at other locations on a more temporary basis.

(c) The Executive shall relocate from Europe to Miami, Florida, and shall rent housing in New Jersey within a reasonable commuting distance from the corporate offices of the Corporation.

4. Compensation. (a) The Corporation agrees to pay to the Executive, and the Executive agrees to accept, a basic salary for all his services (the "Salary") at the rate of \$190,000 per annum, payable from the U.S. corporate office of the Corporation in accordance with the Corporation's standard payroll policies from time to time.

(b) The Corporation agrees to pay the Executive from the U.S. corporate offices of the Corporation a bonus in accordance with the bonus program set forth on Schedule A hereto, with a base bonus of \$50,000.

5. Employee Benefits. (a) The Corporation shall reimburse the Executive for the reasonable business expenses incurred by him for or on behalf of the

Corporation in furtherance of the performance of his duties hereunder. Such reimbursement shall be subject to receipt by the Corporation from the Executive of such an expense statements and such vouchers and other reasonable verifications as the Corporation shall require to satisfactorily evidence such expenses, and shall also be subject to such policies as the Corporation shall establish from time to time (except that international air travel by the Executive may be by business class).

(b) The Executive shall be entitled to participate, in accordance with the terms thereof, in employee benefit plans and programs maintained for the U.S. executives of the Corporation, including, without limitation, any health, hospitalization and medical insurance programs and in any pension or retirement or other similar plans or programs. The foregoing shall not be construed to require the Corporation to establish any such plans or programs, or to prevent the Corporation from modifying or terminating any such plans or programs once established. Without limiting the foregoing, the Executive shall resign from the health plans maintained by International Software Partners GmbH and enroll in a U.S. health care plan maintained by the Corporation.

(c) The Executive shall be entitled to six (6) weeks of vacation each employment year during the term of this Agreement, taken consecutively or in segments, subject to the effective discharge of the duties of the Executive hereunder.

(d) During the term of the Executive's employment hereunder, the Corporation shall afford the Executive the use of a Mercedes 300 or similar automobile, chosen by the Executive and reasonably satisfactory to the Corporation.

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(e) In connection with the relocation of the Executive from Europe to Miami, Florida, and the maintenance by the Executive of local housing in New Jersey, it is agreed as follows:

(i) the Corporation shall pay or reimburse the Executive for up to 50% of the cost of moving the Executive's household goods and personal effects from his current residence in Europe to his new residence in Miami, Florida, up to a maximum of \$10,000;

(ii) the Corporation shall provide the Executive, for use in his new home in Miami, Florida, with a telephone and fax machine (which may be combined), and miscellaneous office supplies, it being understood that the Corporation shall not absorb the cost of a full home office, and that all of such equipment and supplies provided or paid for by the Corporation shall remain the property of the Corporation;

(iii) the Corporation shall provide or reimburse the Executive for regular round-trip air fare or tickets between New York and Miami airports on a weekly basis, so as to enable the Executive to be at his Miami residence the balance of each work week; it being understood that the expenses of ground transportation to and from such airports shall be the responsibility of the Executive;

(iv) the Corporation shall pay or reimburse the Executive for the rent expense for the Executive's local housing in New Jersey, which is to be in the range of \$1,000 to \$1,500 per month; and

(v) the Corporation shall pay or reimburse the Executive for the fees and expenses of counsel satisfactory to the Corporation in connection with the Executive obtaining the requisite work permit (L-1), up to a maximum of \$5,000.

6. Termination. (a) Notwithstanding anything to the contrary contained herein, the Executive's employment with the Corporation, as well as the Executive's right to any compensation which thereafter otherwise would accrue to him hereunder or in connection therewith, shall terminate upon the earliest to occur of the following events:

(i) the death or disability (as defined below) of the Executive,

(ii) the expiration of the Term of this Agreement,

(iii) the Executive's termination of such employment, or

(iv) upon delivery of written notice, with or without "cause" (as defined below), to the Executive from the Corporation of such termination.

(b) For the purpose of this Section 6, (i) the term "cause" is defined as (A) the commission by the Executive of a felony or an offense involving moral turpitude, the Executive's engaging in theft, embezzlement, fraud, obtaining



acts of misconduct with respect to the property of the Corporation or its employees, stockholders, affiliates, customers, licensees, licensors or suppliers, (B) the repeated failure by the Executive to perform his duties hereunder or comply with reasonable policies or directives of the Board of Directors or President of the Corporation, or (C) the breach of this Agreement or the Conditions of Employment by the Executive in any material respect, and (ii) the Executive shall be deemed "disabled" if, at the Corporation's option, it gives notice to the Executive or his representative that due to a disabling mental or physical condition, he has been prevented, for a continuous period of 90 days during the Term or for an aggregate of 120 days during any six-month period during the Term, from substantially performing those duties which he was required to perform pursuant to the provisions of this Agreement prior to incurring such disability.

(c) In the event of the termination by the Corporation of the employment of the Executive under this Agreement without "cause" in accordance with Section 6(a)(iv) above, the giving by the Corporation of notice of non-renewal of this Agreement pursuant to Section 2 or the voluntary resignation or retirement of the Executive, in addition to the Salary and other compensation (including cash bonuses) earned hereunder and unpaid or not delivered through the date of termination and any benefits referred to in Section 5(b) hereof in which the Executive has a vested right under the terms and conditions of the plan or program pursuant to which such benefits were granted (without regard to such termination), the Corporation shall pay the Executive severance ("Severance") in an amount equal to his monthly Salary for nine (9) months from the date of termination. The Severance shall be paid to the Executive or his estate in nine consecutive, equal monthly installments of \$15,833.33 each (subject to withholding), on the fifteenth day of each calendar month commencing during the month next following the month in which the Executive is no longer employed by the Corporation, and shall be in lieu of any other claim to severance or similar payments or benefits which the Executive may otherwise have or make. Without limiting any other rights or remedies which the Corporation may have, it is understood that the Corporation shall be under no further obligation to make any such Severance payments and shall be entitled to be reimbursed therefor by the Executive or his estate if the Executive violates any of the covenants set forth in the Conditions of Employment attached as Exhibit A hereto. In the event that the Severance shall become payable to the Executive, the Executive shall not be required, either in mitigation of damages or by the terms of any provisions of this Agreement or otherwise, to seek or accept other employment, and if the Executive does accept other employment, any benefits or payments under this Agreement shall not be reduced by any compensation earned or other benefits received as a result of such employment.

7. Deductions and Withholding. The Executive agrees that the Corporation shall withhold from any and all payments required to be made to the Executive pursuant to this Agreement all federal, state, local and/or other taxes which are required to be withheld in accordance with applicable statutes and/or regulations from time to time in effect.

8. Non-Solicitation, Restrictive Covenants, Confidentiality and Injunctive Relief. (a) The Executive shall execute and deliver to and for the benefit of the Corporation, the Conditions of Employment attached as Exhibit A hereto, pertaining, among other matters, to proprietary information, confidentiality obligations, and non-competition obligations, the provisions

of which shall be deemed incorporated herein by reference as if set forth herein (the "Conditions of Employment").

(b) The provisions of this Section 8 shall survive the termination or expiration of this Agreement, irrespective of the reason therefor, including under circumstances in which the Executive continues thereafter in the employ of the Corporation.

9. Warranty. The Executive warrants and represents that he is not a party to any agreement, contract or understanding, whether of employment or otherwise, which would in any way restrict or prohibit him from undertaking his position as an executive of the Corporation and complying with his obligations in accordance with the terms and conditions of this Agreement and the Conditions of Employment.

10. Insurance. The Executive agrees that the Corporation may from time to

time and for the Corporation's own benefit apply for and take out life insurance covering the Executive, either independently or together with others, in any amount and form which the Corporation may deem to be in its best interests. The Corporation shall own all rights in such insurance and in the cash values and proceeds thereof and the Executive shall not have any right, title or interest therein. The Executive agrees to assist the Corporation, at the Corporation's expense, in obtaining any such insurance by, among things, submitting to customary examinations and correctly preparing, signing and delivering such applications and other documents as reasonably may be required. Nothing contained in this Section 10 shall be construed as a limitation on the Executive's right to procure any life insurance for his own personal needs.

11. Notices. All notices shall be in writing and shall be deemed to have been duly given to a party hereto on the date of such delivery, if delivered personally, or on the third day after being deposited in the mail if mailed via registered or certified mail, return receipt requested, postage prepaid, or on the next business day after being sent by recognized national overnight courier service, in the case of the Executive at his current address as set forth in the Corporation's records, and in the case of the Corporation, at its address set forth above.

12. Assignability and Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the heirs, executors, administrators, successors and legal representatives of the Executive, and shall inure to the benefit of and be binding upon the Corporation and its successors and assigns. The Executive may not assign, transfer, pledge, encumber, hypothecate or otherwise dispose of this Agreement, or any of his rights or obligations hereunder, and any such attempted delegation or disposition shall be null and void and without effect.

13. Severability. In the event that any provisions of this Agreement would be held to be invalid, prohibited or unenforceable in any jurisdiction for any reason (including, but not limited to, any provisions which would be held to be unenforceable because of the scope, duration or area of its applicability), unless narrowed by construction, this Agreement shall, as to such jurisdiction only, be construed as if such invalid, prohibited or unenforceable provision had been more narrowly drawn so as not to be invalid, prohibited or unenforceable (or if such language cannot be drawn narrowly enough, the court making any such determination shall have the power to modify

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such scope, duration or area or all of them, but only to the extent necessary to make such provision or provisions enforceable in such jurisdiction, and such provision shall then be applicable in such modified form). If, notwithstanding the foregoing, any provision of this Agreement would be held to be invalid, prohibited or unenforceable in any jurisdiction, such provision shall be ineffective to the extent of such invalidity, prohibition or unenforceability, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

14. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New Jersey, without regard to principles of conflict of laws and regardless of where actually executed, delivered or performed.

15. Complete Understanding; Counterparts. This Agreement constitutes the complete understanding and supersedes any and all prior agreements and understandings between the parties with respect to its subject matter, and no statement, representation, warranty or covenant has been made by either party with respect thereto except as expressly set forth herein. This Agreement shall not be altered, modified, amended or terminated except by written instrument signed by each of the parties hereto. The Section and paragraph headings contained herein are for convenience only, and are not part of and are not intended to define or limit the contents of said Sections and paragraphs. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same agreement.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

PROGRAMMER'S PARADISE, INC.

By:

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-----  
Peter Lorenz

EMPLOYMENT AGREEMENT

THE UNDERSIGNED:

1. LOGICSOFT HOLDING BV, a closed company with limited liability under the laws of the Netherlands, with its corporate seat in Amsterdam, hereinafter referred to as: "EMPLOYER";

and

2. MR FRANS H.M. VAN DER HELM, residing in the Netherlands at De Wickelaan 35, 2265 DG Leidschendam, hereinafter referred to as: "EMPLOYEE";

TAKING INTO CONSIDERATION THAT:

- a. Since January 21, 1991, Employee is employed by Logicsoft Europe B.V., a subsidiary of Employer, originally in the function of Office Manager and most recently in the function of Deputy Director.
- b. Employer intends to appoint Employee as its Vice President and Chief Operating Officer for the Netherlands, France, the United Kingdom and Italy, as a consequence of which Employee shall leave the employment of Logicsoft Europe B.V. as of December 14, 1998, and enter into the Employment of Employer as of the same day.
- c. Employer and Employee want to formalise their contractual relationship in this employment agreement.

HAVE AGREED AS FOLLOWS:

1. TASKS AND DUTIES

- 1.1. Employer hereby employs Employee as Vice President and Chief Operating Officer of Employer for The Netherlands, France, the United Kingdom and Italy. Employee

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hereby accepts such employment, upon the terms and conditions as set forth in this agreement.

- 1.2 Employee agrees to devote his best efforts, attention and abilities to the business and the affairs of Employer. Employee shall, at all times, observe the best interests of Employer and its affiliates.
- 1.3 Except with the express prior written consent of the Board of Directors of Employer, Employee shall not undertake any other paid or unpaid duties or activities for or on behalf of third parties, or perform these duties or activities on his own behalf.

2. DURATION OF THE AGREEMENT AND TERMINATION

- 2.1. This agreement shall be in force for a period of two years. The effective date of this agreement is December 14, 1998. During the course of this agreement, both Employer and Employee may terminate this agreement at four months' written notice against the end of any calendar month.
- 2.2 Not later than September 14, 2000, Employer and Employee will discuss the possibilities and conditions of an extension of the employment relationship after December 14, 2000.
- 2.3 Employee is entitled to a severance payment of 50% of the gross salary per year mentioned in article 3.1, if (a) Employer terminates this agreement during its course or against the end of the period mentioned in article 2.1, unless such termination takes place for an "urgent reason" in the sense of article 7:677 Dutch Civil Code; or (b) Employer substantially changes the tasks and duties of Employee, as a consequence of which relationship Employee wishes to terminate the employment relationship.

3. SALARY

- 3.1. The gross salary per year to which Employee shall be entitled is the equivalent in Dutch guilders of U.S. \$ 160.000,-, to be accounted on the basis of the exchange rate on the date of this agreement. The salary will be paid in 12 equal parts at the end of each

calendar month.

- 3.2 Employee is not entitled to a holiday allowance.
- 3.3 The salary as mentioned in article 3.1 includes expenses concerning the leasing and maintenance of a car. Employer is willing to pay part of the salary mentioned in article 3.1 in the form of fixed cost reimbursements and contributions to pension arrangements, in as far as this is permissible under applicable (tax) law.
- 3.4 Without prejudice to the second sentence of article 3.3, the salary payments mentioned in 3.1 shall be subject to normal statutory withholdings, such as tax and social security premiums.
- 3.5 The payments mentioned in this article, shall be made to a Dutch bank or giroaccount to be indicated by Employee.

#### 4. BONUS

- 4.1. Employee is entitled to a yearly bonus of U.S. \$ 20.000,- if he realizes the income from operations target of that year. The income from operations target of every year shall be set by Employer after consultation with Employee before the beginning of each respective year. Employee is entitled to a bonus of U.S. \$ 40.000,- if the income from operations target of that year is exceeded by at least 30%.
- 4.2. The bonus referred to in article 4.1 shall be paid by Employer to Employee within 6 weeks after the annual accounts of Employer will be adopted (and - in as far as necessary - approved) by the competent bodies of Employer.
- 4.3. Employee is not entitled to a bonus as referred to in article 4.1 in a year in which he was ill during a (computed) period of four months or in which he was suspended for any period or unable to perform his duties as a result of disablement.

#### 5. EXPENSES

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- 5.1 Any reasonable expenses properly incurred by Employee in the performance of his function - including costs for fuel for the car - in as far as not covered by any fixed monthly reimbursement, shall be reimbursed by Employer, in accordance with the standard procedure within the organization of Employer. An account of such expenses, accompanied by supporting receipts and other appropriate evidence, shall be rendered by Employee to Employer from time to time.

#### 6. WORKING HOURS OVERTIME

- 6.1 Employee shall put in such overtime, without being entitled to any additional payments (in money or in free time), as may be reasonably required from him in order to properly carry out his obligations under the agreement.

#### 7. HOLIDAYS

- 7.1 Employee shall be entitled to 24 holidays a year. He is entitled to enjoy holidays after consultation and permission of the chairman of the Board of Directors of Employer.
- 7.2 Employee shall not be entitled to short time ("arbeidstijdverkorting") .

#### 8. ILLNESS OR DISABILITY

- 8.1 In case of illness or disability of Employee, Employer is obliged to pay 100% of the gross salary as referred to article 3.1 during the first 52 weeks of illness or disability. The above applies, however, only if and to the extent that pursuant to the requirements of article 7:629 section 3 up to and including 7, and section 9, of the Dutch Civil Code, Employer is under the obligation to pay in accordance with article 7:629 section 1 Dutch Civil Code.

#### 9. INSURANCE

- 9.1. Employee will participate in the collective insurance policy concluded by Logisoft Europe B.V. with regard to loss of income as a result of

gatverzekering).

10. CONFIDENTIALITY AND DELIVERY OF DOCUMENTS

10.1 Employee shall not at any time, whether during or after the termination of this employment agreement, except at the express request or with the prior written consent of Employer, use, disclose or permit others to disclose to any person, firm, partnership, company or third party any information related to the business of Employer, any company of the group to which Employer belongs, or any other details relating thereto, which he knows, or reasonably can assume to be secret or confidential unless and to the extent disclosure is necessary for the adequate performance of Employee's duties under applicable law.

10.2 Employee shall treat all items of the employer, such as books, documents, computer floppy disks, other information carriers, resolutions, drawings, reports and notes as property of Employer, and he shall keep such materials and documents, as well as copies thereof, as much as reasonable possible locked away. Employee shall not use any item in another way, or keep any item any longer, than necessary for the adequate performance of his duties. Employee shall upon request, at any time, and without request at the moment of termination of this agreement, and at the moment upon which he is suspended for any period or unable to work as a consequence of illness for a period longer than two months, deliver all items to Employer.

10.3 To the extent the information as mentioned in this article, is put in a computer system of Employee or in another way is put in a form which Employee does not have to deliver to Employer according to article 9.2, Employee shall not keep such information any longer than necessary for the adequate performance of his duties. Employee shall upon request, at any time, delete and destroy such information and confirm in writing to Employer that he has deleted and destroyed the same.

11. GIFTS

11.1 Employee is in the performance of his duties not allowed to accept or to bargain for any direct or indirect gifts however defined without the prior written consent of Employer.

11.2 Article 11.1 is not applicable to customary non valuable promotional gifts.

12. NON-COMPETITION

12.1 Without prejudice to the Share Purchase Agreement of September 30, 1997 (the "SHARE PURCHASE Agreement") between Programmers' Paradise, Inc. and - among others - Employee, Employee shall, both throughout the duration of this agreement and for a period of one year after this agreement has terminated, not alone or jointly, directly or indirectly:

(a) engage in and or be concerned with activities which are similar or in any way whatsoever competitive with the activities or the products of Employer, Programmer's Paradise Inc. ("PPI") or any of their subsidiaries or affiliated companies or seek to obtain orders from or do business with customers relating to software or the distribution thereof. (For the purpose of this clause "customers" shall mean: companies or persons that purchase any goods or services from Employer, PPI or any of their subsidiaries or affiliated companies or have done so at any time during the period of one year prior to the termination of this agreement);

(b) canvass or solicit orders for software or other goods of similar type to those being manufactured or dealt in or for services similar to those being provided by any of Employer, PPI or affiliated companies from any person who is at the termination of this agreement or has been at any time within one year prior thereto a supplier or customer of any of Employer, PPI or any of their subsidiaries or affiliated companies;

(c) engage, employ, solicit or contact with a view to hiring or engaging employees of Employer, PPI or any of their subsidiaries or affiliated companies (For the purpose of this clause "employees" shall mean: persons employed by Employer, PPI or any of their subsidiaries or affiliated companies or persons whose employment with Employer, PPI or any of their subsidiaries or affiliated companies ended less than a year before the termination of this agreement);

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12.2 The restrictions in this article 12 shall not prohibit the Employee for seeking to obtain orders from or do business with customers of Employer, PPI, and/or their subsidiaries or affiliated companies after termination of this agreement, so long as not including or concerned with any software or software products and provided that PPI shall give its prior written consent, which consent shall not unreasonably be withheld with respect to such items or business that are not software or software products (it being understood that such prohibition shall include and such consent feature shall not be applicable to orders or business including software or software products).

12.3 The obligations pursuant to this article apply solely to any work activities or involvement of the Employee within the countries in Western Europe (including Italy) where Employer, PPI or any of their subsidiaries or affiliated companies are active or on the date hereof any of them reasonably contemplate to be active.

12.4 For purposes hereof, each of the following shall be deemed competitive with the activities of Employer, PPI or their subsidiaries or affiliated companies (1) the sale or distribution of software and/or related documentation in any and all languages, platforms, versions or releases, and in any and all media and advertising and promotional services in each case through catalogues and other direct mail publications, web site, Internet, Intranet and other on-line or electronic communications or distribution, and corporate reseller and wholesale operations, in-bound and out-bound telemarketing or otherwise, (2) software consulting, systems integration, software implementation and help desk services, (3) electronic commerce related to software and (4) license management and tracking.

12.5 The Employee acknowledges that the provisions of this article are not more extensive than is reasonable to protect Employer, PPI and/or their subsidiaries or affiliated companies.

### 13. PENALTY

13.1 Should Employee not observe any of the obligations as mentioned in article 10 and /or 11 and/or 12, Employer shall, without prior written notice or court action being required, be entitled to an immediately payable penalty of NLG 25,000 for every

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breach, to be increased by NLG 5,000 for every day such breach continues, without prejudice to any other rights or claims Employer shall have, including the right to claim fulfilment of the obligations laid down in article 10 and/or 11 and/or 12 by Employee in the future. Employer has the right to claim full costs and damages instead of these penalties. The parties hereto acknowledge that the above-mentioned penalty amounts represent a genuine and reasonable pre-estimate of the minimum damage likely to be suffered by the Company or its subsidiaries or affiliated companies if the Employee breaches any of its duties pursuant to article 10, 11 and 12.

13.2 In the event that there is breach of the duties of the Employee pursuant to article 10 or 12 of this agreement, any penalties for such breach may, to avoid collecting double penalties, only be collected either under the Share Purchase Agreement or under this agreement.

13.3 Each of the restrictions in article 10, 11 and 12 shall be enforceable by Employer independently.

### 14. APPLICABLE LAW

14.1 This agreement is governed by the laws of The Netherlands.

15. PRECEDING AGREEMENTS AND MODIFICATIONS

15.1 This agreement supersedes the employment agreement of December 14, 1990 (including the addendum of September 30, 1997), and other possible modifications and employment agreements between on the one hand Employer, PPI, their subsidiaries and affiliates and on the other hand Employee.

This agreement is signed in twofold on

1998

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Logicsoft Holding B.V.

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F.H.M. van der Helm

by:

function:



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L E A S E

LANDLORD: ROBERT C. BAKER, ET AL.  
TENANT: PROGRAMMER'S PARADISE, INC.  
PREMISES: 18,000 sf BUILD TO SUIT BUILDING  
SHREWSBURY AVENUE  
SHREWSBURY, NJ  
DATE OF LEASE: MAY 14, 1997

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EXHIBITS

- A SITE PLAN - DEMISED PREMISES
- B WORK LETTER

MARTIN S. BERGER, TRUSTEE, UNDER TRUST AGREEMENT DATED MARCH 15, 1984 FOR THE BENEFIT OF ASHLEY S. BAKER; JOHN ORRICO; ALAN M. OSHINS, TRUSTEE UNDER TRUST ESTABLISHED UNDER ARTICLE IV OF THE LAST WILL AND TESTAMENT OF HARVEY B. OSHINS; AND KAREN SPIEGEL, each as to an undivided interest, as tenants-in-common, having their office and P.O. Address c/o National Realty & Development Corp., 3 Manhattanville Road, Purchase, New York 10577 (hereinafter referred to as "Landlord") and PROGRAMMER'S PARADISE, INC., a Delaware corporation, having its principal office at 1163 Shrewsbury Avenue, Shrewsbury, New Jersey 07702 (hereinafter referred to as "Tenant").

W I T N E S S E T H:

WHEREAS, the Landlord is constructing a building (hereinafter referred to as "Building") for the purposes of office and processing operations for distribution in conjunction with the business being conducted in the office portion of the Building, to be known as \_\_\_\_\_ Shrewsbury Avenue to be located within the area designated as Lot No. 3/1 (hereinafter referred to as "Lot No. 3/1") on the attached plot plan (hereinafter referred to as "Plot Plan") which is annexed hereto as Exhibit "A" and made a part hereof; and

WHEREAS, Landlord has constructed other buildings on Lot No. 3/1 commonly known as 1151 Shrewsbury Avenue and 1163 Shrewsbury Avenue (such other buildings and the Building to be constructed by Landlord pursuant to the terms hereof are hereinafter collectively referred to as the "Shrewsbury Business Center") or the "Center"); and

WHEREAS, Tenant is desirous of leasing from Landlord and Landlord is desirous of leasing to Tenant the premises hereinafter described, upon and subject to the provisions, agreements, covenants and conditions set forth herein;

NOW, THEREFORE, it is mutually agreed as follows:

ARTICLE 1. DEMISED PREMISES AND TERM

Section 1.01. (a) In consideration of the rents and additional rents hereinafter reserved and all of the provisions, agreements, covenants and conditions hereinafter contained, Landlord hereby leases and demises to Tenant, and Tenant hereby hires, leases and takes from Landlord approximately 18,000 square feet of floor space ("Floor Space"), being the entire Building, more particularly indicated and described by cross-hatching on the Plot Plan (the Building being hereinafter referred to as the "Demised Premises") located on Lot No. 3/1 in the Center located in the BOROUGH OF SHREWSBURY, COUNTY OF MONMOUTH and STATE OF NEW JERSEY, together with all improvements to be constructed thereon by the Landlord for the use of the Tenant, and all easements, tenements and appurtenances thereto, including without limitation, and the use of the parking spaces outlined in red on Exhibit A which shall be reserved for use by Tenant (the aforesaid parking spaces and the drive aisles between said spaces are hereinafter referred to as "Tenant's Parking Area"), it being understood that Landlord shall not be responsible for enforcing the exclusivity of the parking space except with respect to Landlord's employees, agents and contractors, provided, however, that Landlord shall place and maintain signs and/or other markings designating such spaces (as Landlord shall determine as appropriate in Landlord's reasonable discretion) as Tenant's exclusive spaces and shall fully

cooperate with Tenant in Tenant's efforts to enforce the exclusivity of such spaces.

Section 1.01. (b) The parties acknowledge that the Landlord may, at Landlord's sole option, erect and has erected other buildings on Lot No. 3/1 (which may be different in design and construction from the Building). Landlord shall have sole control and discretion in connection with the scope, design and aesthetics of any such additional construction.

Section 1.01. (c) The Demised Premises are demised and let subject to (i) the existing state of the title thereof; (ii) any state of facts which an accurate survey or physical inspection thereof might disclose; (iii) all zoning regulations, restrictions, rules and ordinances now in effect or hereafter adopted by any governmental authority having jurisdiction; and (iv) any utility, sewer or drainage easements or agreements and the installations made pursuant thereto now existing or hereafter granted or installed; all without representation or warranty by Landlord, except as expressly set forth herein.

Section 1.02. As long as Tenant occupies the Demised Premises, Tenant, together with its employees, customers, invitees and business guests, shall have the right to use, in common with Landlord, its successors, assigns, tenants, subtenants, designees, concessionaires, licensees and any of their customers, invitees, and business guests, all of the Common Areas (as such term is defined

in Section 12.01 hereof) at any time and from time to time existing within Lot No. 3/1, except for areas reserved for the exclusive use of other tenants, occupants, or designees and except for periods of time during which the Common Areas are being repaired, altered or reconstructed. Neither Landlord nor Tenant nor anyone holding under or through either of them shall make any charge for the use of the Common Areas to the other or to the customers, invitees or business guests of Landlord or Tenant or of anyone else hereinbefore granted the right to use the Common Areas, except as provided in Article 12 of this Lease.

Section 1.03. The term ("Term") of this Lease shall be TEN (10) YEARS AND ONE (1) MONTH from and after the commencement date ("Commencement Date"), which date shall be the date upon which the Demised Premises shall be duly certified by Landlord or Landlord's agent as being substantially complete in accordance with the Plans and Specifications, except for those items, the completion of which will not unreasonably interfere with Tenant's use and occupancy of the Demised Premises, and Landlord has delivered to Tenant a Certificate of Occupancy or its equivalent evidencing that the Demised Premises may be occupied for uses set forth in Section 2.01, and shall expire on the date which is TEN (10) YEARS AND ONE (1) MONTH following the last day of the calendar month in which said Commencement Date shall occur ("Expiration Date").

Section 1.04. The parties shall, within ten (10) days following request of the other, execute a written document, in recordable form, expressing the Commencement Date and Expiration Date of the Term hereof, as such have been determined in accordance with the provisions of this Lease.

## ARTICLE 2. USE AND OPERATION

Section 2.01. Subject to the other provisions of this Lease, Tenant shall occupy and use the Demised Premises solely for office and processing operations and distribution in conjunction with the business being conducted in the office portion of the

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Demised Premises, and for no other use. Tenant hereby covenants and agrees that it, its successors and assigns, or anyone holding by, through or under them, shall not use, nor permit the use of the Demised Premises for any other use or purpose. Immediately following certification under Section 1.03 above, Tenant shall fixture, furnish and equip the Demised Premises for Tenant's intended business purpose and upon the Commencement Date, Tenant shall occupy and open for business in the Demised Premises.

## ARTICLE 3. RENT

Section 3.01. The annual minimum rental during the Term shall be as follows:

(A) During the First through Fifth Years of the Term of this Lease: ONE HUNDRED EIGHTY THOUSAND AND 00/100 (\$180,000.00) DOLLARS per annum - FIFTEEN THOUSAND AND 00/100 (\$15,000.00) DOLLARS per month; and

(B) During the balance of the Term of this Lease: TWO HUNDRED TWENTY FIVE THOUSAND AND 00/100 (\$225,000.00) DOLLARS per annum - EIGHTEEN THOUSAND SEVEN HUNDRED FIFTY AND 00/100 (\$18,750.00) DOLLARS per month.

Notwithstanding anything to the contrary set forth herein, Tenant's obligation to pay annual minimum rent shall commence thirty (30) days following the Commencement Date. Tenant shall have the right, within thirty (30) days following the Commencement Date, to have a licensed independent architect, mutually acceptable to Landlord and Tenant, measure the Demised Premises for the purpose of determining the actual square footage of the Demised Premises. In the event that the actual square footage of the Demised Premises varies by more than 250 square feet from the square footage referenced in Section 1.01(a) of the Lease, the annual minimum rental shall be increased or decreased, as the case may be, so that the annual minimum rental payable during the initial Term shall be at the rate of \$10.00 per square foot during the First through the Fifth years of the initial Term and \$12.50 per square foot during the balance of the initial Term, based upon the total actual square footage of the Demised Premises.

Tenant agrees to pay to Landlord the annual minimum rent specified above in lawful money of the United States in equal monthly installments, in advance, on the first day of each calendar month during the Term hereof at the office of Landlord or such other place or to such other person or party as Landlord may designate, without prior demand therefor and without any setoff or deduction whatsoever, except as herein provided. Unless and until Landlord otherwise designates in writing all annual minimum rent and additional rent accruing hereunder shall be paid to National Realty & Development Corp. at 3

Manhattanville Road, Purchase, New York 10577. Annual minimum rent and additional rent shall be prorated for a fraction of a month, if any, based on the number of days within such fractional month.

Section 3.02. All taxes, charges, costs and expenses which Tenant assumes or agrees to pay under any provision of this Lease, together with any and all other sums which may become due, by reason of any default of Tenant or failure on Tenant's part to comply with the provisions, covenants and conditions of this Lease on Tenant's part to be performed, and each or any of them, shall be collectible and recoverable as additional rent, and, in the event of nonpayment thereof, Landlord shall have all the rights and

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remedies herein provided as in the case of nonpayment of annual minimum rent.

#### ARTICLE 4. SUBORDINATION

Section 4.01. This Lease and all rights of Tenant hereunder are, and shall be, subject and subordinate to any mortgages, deeds of trust (including blanket mortgages or deeds of trust covering the Demised Premises and/or the Center and/or other properties) or any other security interest which has been or which hereinafter may affect the Demised Premises, and to any ground or underlying leases of all or part of the Center, and to any renewals, modifications, consolidations, replacements and extensions thereof (hereinafter collectively referred to as "Landlord's Financing"). Tenant acknowledges that the interest of Landlord under this Lease may be assigned by Landlord as collateral security to any of the foregoing parties holding interests to which this Lease is subject and subordinate. In the event of foreclosure of any such interest, or termination of any such ground or underlying lease, or in the event of any exercise of the power of sale under any mortgage or other security interest made by Landlord covering the premises of which the Demised Premises forms a part, Tenant shall, at the sole option and direction of any such party, recognize the rights of any such party under and pursuant to the provisions of such collateral assignment and Tenant shall be deemed to have automatically attorned to and acknowledged the purchaser or purchasers upon any foreclosure or sale and recognized such purchaser or purchasers as the Landlord under this Lease. Notwithstanding anything to the contrary set forth herein, this Lease shall not be subordinate to Landlord's Financing unless and until the Landlord has provided Tenant from the holder of Landlord's Financing, a non-disturbance agreement providing that Tenant's occupancy will not be disturbed and that the holder of Landlord's financing will recognize all of Tenant's rights under the lease, provided Tenant is not in default beyond any applicable grace periods. Such non-disturbance agreement may also contain subordination, attornment and such other provisions as are typically requested by commercial lenders in connection with mortgage loans made on properties similar to the Building. It is acknowledged and agreed that this Lease is subject to Landlord obtaining a non-disturbance agreement as described above for the benefit of Tenant from the holder of any mortgage affecting the Demised Premises as of the date of the execution and delivery of this Lease. In the event that such non-disturbance has not been obtained on or before that date which is sixty (60) days following the execution and delivery hereof, Tenant shall have the right to terminate this Lease upon notice to Landlord within said sixty (60) day period otherwise Tenant shall be deemed to have waived the foregoing requirement that Landlord obtain such non-disturbance agreement.

Section 4.02. Tenant shall, at any time and from time to time, upon not less than ten (10) days prior notice, execute, acknowledge and deliver to Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect (or, if there have been modifications, that the same is in full force and effect, as modified, and stating the modifications) and the dates to which the rent and other charges have been paid in advance, if any, and stating whether or not Landlord is in default in the performance of any provision, covenant or condition contained in this Lease, and if so, specifying each such default, and containing any other statements or certifications required by a mortgagee, and/or ground lessor and/or other secured party, it being intended that any statement or certification delivered

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pursuant to this Section may be relied upon by any party to whom it may be delivered by Landlord.

Section 4.03. If Tenant shall fail or neglect to execute, acknowledge and deliver any documents required by this Article, Landlord, in addition to any other remedies, may, as agent or attorney-in-fact of Tenant, execute, acknowledge and deliver same on behalf of Tenant, and Tenant hereby irrevocably nominates, constitutes and appoints Landlord as Tenant's proper and legal attorney-in-fact for such purpose, hereby ratifying all such acts that Landlord may do as attorney-in-fact of Tenant.

#### ARTICLE 5. CONSTRUCTION

Section 5.01. Landlord, at Landlord's sole cost and expense, shall construct the Demised Premises for Tenant at the approximate location as indicated on the Plot Plan and having the approximate dimensions shown thereon. The plans ("Plans") for the Demised Premises shall be prepared by architects and engineers selected by Landlord, substantially in accordance with the Work Letter specifications annexed hereto and made a part hereof as Exhibit B and the interior space plan for the Demised Premises received and approved by Landlord and which plan is annexed to this Lease as Exhibit B-1 (the work to be performed by Landlord in the Demised Premises is hereinafter sometimes referred to as "Landlord's Work" and Exhibits B and B-1 are herein sometimes referred to as the "Work Letter"). Landlord shall reimburse Tenant the amount of \$3,000.00, within thirty (30) days after submission of a bill therefor, for the costs of providing such interior space plan. Following the execution and delivery of this Lease, Landlord agrees to prepare and furnish to Tenant a set of plans and specifications for the Landlord's Work. The plans and specifications shall be prepared by a licensed architect retained by Landlord. To the extent such Plans are in compliance with said Work Letter, the Plans shall be deemed approved by Tenant. Tenant agrees to review the plans and specifications and in each case to approve same or to state what reasonable changes, if any, Tenant requires therein within ten (10) days after receipt thereof. Any changes requested by Tenant shall not be deemed reasonable in the event that same is not in compliance with the Work Letter unless Tenant agrees to pay for any additional work not in compliance with the Work Letter as a "Tenant extra" in accordance with the terms of Exhibit B. If Tenant requires any reasonable changes, Landlord shall cause the plans and specifications to be revised in accordance with any reasonable requirements of Tenant and to resubmit same to Tenant for Tenant's review within ten (10) days after receipt of Tenant's changes. The revisions and resubmissions shall continue until Tenant shall have approved the plans and specifications (said approved plans and specifications being hereinafter called the "Plans"). The Plans shall be final and shall not be changed by Landlord or Tenant without the prior consent of the parties. In the event that Landlord and Tenant are unable to agree on the plans and specifications within forty-five (45) days from the date the initial submission of the plans and specifications by Landlord to Tenant, Landlord and Tenant agree to settle any such dispute by arbitration using the procedure set forth in Article 39 of this Lease for the selection of an arbitrator (except that the arbitrator shall be an "AIA member architect").

Section 5.02. Landlord or Landlord's contractor shall give Tenant notice when the Demised Premises are complete to the extent that it is practicable for Tenant to enter therein for the performance of work by Tenant necessary to occupy the Demised Premises and open for business, and if such notice shall be given,

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Tenant shall promptly thereafter commence all work that is necessary to open the Demised Premises for business. Subject to the foregoing provisions of this Section, Tenant shall have the right to install its fixtures and equipment during construction, provided Tenant does not interfere with the construction of the Demised Premises or Building, and all work is performed in such manner and with such labor as shall not interfere with the performance of Landlord's Work, and, further, provided, that insurance meeting the requirements of Section 7.02 is furnished to Landlord prior to any such entry. Such entry into the Demised Premises by Tenant prior to the Commencement Date is and shall be at the Tenant's sole cost and risk, and the provisions of Section 7.01 and Section 7.02 shall be applicable during any such period prior to the Commencement Date. All fixturing and/or other work to be performed by or on behalf of Tenant (other than Landlord's Work hereunder) shall be done in accordance with plans and specifications therefor submitted to and approved by Landlord prior to the commencement of such fixturing and/or other work, which approval shall not be unreasonably withheld, and in accordance with and subject to the provisions of Article 19 hereof. No changes shall be made in said plans and specifications nor shall there be any deviation in the prosecution of the work in accordance with said plans and specifications without Landlord's prior written approval.

Section 5.03. If Tenant claims that some or all of the construction requirements imposed upon Landlord pursuant to the provisions of this Lease have not been complied with by Landlord upon delivery of notice of substantial

completion of Landlord's work, as provided herein, Tenant shall, within forth five (45) days of said date, submit to Landlord a written list of the work Tenant claims remains to be performed by Landlord, and Landlord shall have ninety (90) days thereafter to complete such work. If Landlord fails to complete such work, the sole remedy of Tenant shall be to complete such work and Tenant shall have the right to set off the cost thereof from the rent due Landlord in order to reimburse Tenant for the cost and expense of completion of the work. Upon written request of Landlord, Tenant will, within five (5) days following request (but not sooner than the date required by the first sentence of the Section), furnish to Landlord a written statement that the construction of the Demised Premises has been completed in accordance with Landlord's obligations or in lieu thereof, a list of the work Tenant claims to be incomplete.

Section 5.04. Promptly following the Approvals Date (as hereinafter defined), Landlord shall proceed with all due diligence to substantially complete the construction of the Demised Premises. In the event that Landlord has not commenced construction of the Demised Premises within ninety (90) days following the Approvals Date, Tenant shall have the right, upon written notice given to Landlord prior to the start of construction, to terminate this Lease, and in such event, Landlord and Tenant shall be released from any and all rights and obligations hereunder, excepting those, if any, accruing prior to the date of termination. In the event that the building to be constructed on the Demised Premises is not fully enclosed and/or the utility services for such building are not in place at such building on or prior to that date which is fifteen (15) months following the Approvals Date, then, in such event, Tenant shall have the right, upon written notice given to Landlord prior to the substantial completion of such work, to terminate this Lease, and in such event, Landlord and Tenant shall be released from any and all rights and obligations hereunder, excepting those, if any, accruing prior to the date of termination. Notwithstanding anything to the contrary set forth herein, if Tenant has not elected to terminate the Lease pursuant to the

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provisions hereinabove set forth in this Section 5.04, and possession of the Demised Premises with Landlord's Work substantially completed shall not be delivered to Tenant on or prior to that date which is fifteen (15) months from the Approvals Date, the sole remedy of Tenant shall be to complete the Landlord's Work and Tenant shall have the right to set off the costs thereof from the rent due Landlord in order to reimburse Tenant for the cost and expense of completion of the Landlord's Work.

If the substantial completion of the Landlord's Work and/or delivery of the Demised Premises to Tenant is delayed by reason of: (i) any act or omission of Tenant or any of its employees, agents or contractors; or (ii) any failure (not due to any act or omission of Landlord or any of its employees, agents or contractors) to plan or execute Tenant's work necessary for Tenant's occupancy of the Demised Premises with reasonable speed and diligence, or (iii) any changes by Tenant in the plans or specifications for the construction of the Demised Premises or any changes or substitutions requested by Tenant; or (iv) Tenant's failure to furnish plans and specifications required to be furnished by Tenant, or subsequent changes thereto; or (v) Tenant's request for materials, finishes or installations other than as provided for in the approved plans and specifications; or (vi) the performance or incompleteness of work by a party employed or retained by Tenant; then the Demised Premises shall be deemed substantially completed on the date when the same would have been substantially completed but for such delay and, in addition, Tenant shall pay to Landlord all costs and damages which Landlord may sustain by reason of such delay. As used in this Lease, "substantial completion" shall be deemed to mean the completion of the Landlord's Work except for those items the completion of which will not unreasonably interfere with Tenant's use and occupancy of the Demised Premises.

Section 5.05. If there shall be a delay in the construction, repair or restoration of the Demised Premises or Center or any portion thereof caused by strikes, riots, acts of God, shortages of labor or materials beyond the reasonable control of Landlord, national emergency, governmental restrictions, laws or regulations, the act or failure to act of Tenant, including without limitation, delays in delivering construction criteria and plan approval, or for any other cause or causes beyond Landlord's control, at Landlord's option such delay shall not be a violation of this Lease, and the time periods set forth in this Lease for any such work shall, at Landlord's option, be extended for a period of time equal to the period of delay.

Section 5.06. The Plot Plan shows the approximate location of existing buildings, buildings under construction, proposed buildings and certain areas reserved for related site improvements and future construction at the option of Landlord. Landlord shall have the right to develop the Center in the manner it sees fit and in the sole and absolute discretion of Landlord: to construct or not construct any buildings other than the Building, to change the nature of

identity of the occupants of any such buildings, and to vary the floor areas, stories and heights, sizes, shapes and design of any such buildings and the divisions or portions thereof.

#### ARTICLE 6. ALTERATIONS AND REPAIRS

Section 6.01. No alterations or additions shall at any time be made by or at the instance of Tenant without Landlord's prior written consent. Notwithstanding the foregoing, Tenant shall have the right, without Landlord's consent, to make interior

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alterations, installations and improvements which are normal and customary in an office building, and which do not (i) affect the exterior or load bearing portions of the Building or the building systems serving the Building or (ii) void any guaranty or warranty which Landlord has received in connection with the Demised Premises or Building, but subject to Landlord's receipt of the plans therefor (prior to commencement of the alterations), and Landlord's receipt of as-built and as-filed plans therefor promptly following completion of the alterations. All such work, alterations, installations, additions and improvements shall be done at Tenant's sole risk and expense. All work, repairs, and/or alterations made by or at the instance of Tenant shall be done in a good and workmanlike manner, with first class new materials, in compliance with any applicable governmental rules and regulations, and subject to Article 19 hereof, and the cost thereof shall be paid by Tenant in cash or its equivalent, so that the Demised Premises shall at all times be free of liens for labor materials supplied or claimed to have been supplied to the Demised Premises. Any alterations, installations, repairs, additions or improvements (inclusive of paneling and other wall coverings), except Tenant's trade fixtures, shall, at the option of Landlord, become the property of Landlord and shall remain upon and be surrendered with the Demised Premises, as part thereof, at the expiration or sooner termination of the term of this Lease. If Tenant is in default hereunder or is dispossessed, and fails to remove any property, equipment and fixtures within ten (10) days following notice by Landlord, then and in that event, the said property, equipment and fixtures shall be deemed, at the option of Landlord, to be abandoned; or in lieu thereof, at the Landlord's option, Landlord may remove and store or dispose of such property and charge the cost and expense of removal, storage and disposal to Tenant. Trade fixtures shall be defined as fixtures and equipment used by Tenant in the operation of its business, but not including any fixtures and equipment which are part of the operation of the Demised Premises or the Building.

Section 6.02. Anything to the contrary contained herein notwithstanding, it is expressly understood and agreed that Tenant may install, connect and operate such machinery, fixtures and equipment as may be deemed necessary by the Tenant for its business, subject to compliance with applicable rules and regulations of governmental bodies and bureaus having jurisdiction thereover. Subject to the terms and conditions of this Lease, the machinery, fixtures and equipment belonging to Tenant shall, at all times, be considered and intended to be personal property of Tenant, and not part of the realty, and subject to removal by Tenant, provided, at the time of such removal, that Tenant is not in default pursuant to any of the terms, covenants, provisions or conditions of this Lease. Tenant, at its own cost and expense, shall pay for any damage to the Demised Premises or Building caused by the installation thereof or such removal, and this obligation shall survive the expiration or sooner termination of the term of this Lease.

Section 6.03. (a) Landlord shall, following reasonable notice from Tenant, make all necessary repairs and replacements to (i) the Landlord's Work the need for which arises prior to first anniversary of the Commencement Date (provided Tenant shall have performed its maintenance and repair obligations as set forth herein) and (ii) the structural portions of the Demised Premises, which shall include, without limitation, the roof, roof deck, exterior walls (including maintaining the water tight integrity of the walls and all openings therein) and the floor slab and foundations thereof, provided, however, in no event shall Landlord be required to make any repairs or replacements caused by any act, omission, or negligence of Tenant, any subtenant, or

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concessionaire, or their respective employees, agents, invitees, licensees or contractors (other than repairs or replacements necessitated by reason of fire



or other casualty which shall be made in accordance with the provisions of Article 8 hereof). Tenant shall make all other repairs and replacements to the Demised Premises. Tenant shall maintain throughout the term of this Lease, including any extension term hereof, a protective service maintenance contract with a contractor approved by Landlord, which approval shall not be unreasonably withheld, providing for periodic maintenance of the H.V.A.C. system serving the Demised Premises, including without limitation periodic changing of any and all filters, changing of belts, lubricating of equipment and maintenance of operating levels of freon in accordance with manufacturers specifications. Said contract shall provide for maintenance inspection and service not less than three (3) times per year. A copy of any such maintenance contract shall be delivered to Landlord on a yearly basis or more often if required by Landlord. Tenant shall keep all glass clean and in good condition, and Tenant shall replace any glass which may be damaged or broken with glass of the same quality. Tenant shall keep the sidewalk, if any, adjacent to the Demised Premises free and clear of trash, litter and rubbish.

Section 6.03.(b) Notwithstanding anything to the contrary hereinabove set forth, Landlord agrees to make partial reimbursement to Tenant for the replacement of the HVAC system serving the Demised Premises which occur during the term hereof, which reimbursement shall be based upon the formula set forth below and shall only be made if: (a) the need for such necessary replacement is not caused by any act, omission, or negligence of Tenant, any subtenant, or concessionaire, or their respective employees, agents, invites, licensees or contractors; and (b) Tenant is not in default under the terms and conditions of this Lease, including, but not limited to, Tenant's obligations as set forth in this Section 6.03. Subject to the foregoing, Landlord shall reimburse Tenant, within thirty (30) days after receipt by Landlord of proof of Tenant's full payment for such necessary replacement, in an amount equal to the cost of such necessary replacement less an amount determined by multiplying such cost by a fraction the numerator of which shall be the number of months remaining prior to the expiration date of the Lease and the denominator of which shall be 120. In the event that Tenant exercises its option for an extension term(s) after reimbursement has been made as provided for herein, then the amount of Landlord's reimbursement to Tenant shall be re-computed based upon the above formula and taking into account the remaining number of months as of the date such replacement cost was incurred, as if the extension term(s) had then been in effect. Tenant shall reimburse Landlord, within thirty (30) days after receipt of an invoice therefor, for the difference between the initial reimbursement amount and any such adjusted reimbursement amount.

Section 6.04. Nothing contained in this Lease shall authorize Tenant to do any act which may create or be the foundation for any lien, mortgage or other encumbrance upon the reversion or other estate of Landlord, or of any interest of Landlord in the Demised Premises, or upon or in the Building or Center of which the same form a part; it being agreed that should Tenant cause any alterations, changes, additions, installations, improvements or repairs to be made to the Demised Premises, or cause materials to be furnished or labor to be performed therein or thereon, neither Landlord nor the Demised Premises shall, under any circumstances, be liable for the payment of any expense incurred or for the value of any work done or materials furnished to the Demised Premises or any part thereof. Tenant shall, upon request

of Landlord, deliver such documents as may be required by this paragraph and Section 6.01 hereof. All such alterations, changes, additions, improvements, repairs, materials and labor shall be at Tenant's sole expense and Tenant shall be solely and wholly responsible to contractors, subcontractors, laborers and materialmen furnishing labor and material to the Demised Premises and Building or any part thereof. If, because of any act or omission of Tenant, any mechanic's or other lien or order for the payment of money shall be filed against the Demised Premises or the Building or improvements thereon or therein, or upon the Center, or against Landlord (whether or not such lien or order is valid or enforceable as such), Tenant shall, at Tenant's own cost and expense, within ten (10) days after notice of the filing thereof, cause the same to be canceled and discharged of record, or furnish Landlord with a surety bond issued by a surety company reasonably satisfactory to Landlord, protecting Landlord from any loss because of nonpayment of such lien or claim, and Tenant hereby indemnifies and saves harmless Landlord from and against any and all costs, expenses, claims, losses or damages, including reasonable counsel fees, resulting therefrom or by reason thereof.

Section 6.05. Except for the repair obligations of Landlord under Section 6.03 above and the restoration obligations of Landlord under and as set forth in Articles 8 and 10 hereof, the Tenant shall take good care of the Demised Premises and, at its cost and expense, keep and maintain in good repair the interior and exterior of the Demised Premises, including, but not limited to the air conditioning and heating plant, the plumbing pipes and fixtures belonging

thereto; and shall repair or replace all mechanical and working parts used in connection with the air conditioning, electrical, heating and plumbing plants, fixtures and systems; and shall keep the water and sewer pipes and connections; and shall generally maintain and repair the interior and exterior of the Demised Premises and shall, at the end of the expiration of the Term (Extension Term, whichever is applicable) deliver up the Demised Premises in good order and condition, damages by the elements, ordinary wear and tear excepted. Tenant covenants and agrees that it shall not cause or permit any waste (other than reasonable wear and tear), damage or disfigurement to the Demised Premises, or any overloading of the floors of the Building.

#### ARTICLE 7. INDEMNITY AND INSURANCE

Section 7.01. (a) To the extent not covered by the insurance required to be maintained by Landlord hereunder, and subject to the provisions of Article 9 (Waiver of Subrogation), Tenant hereby indemnifies and saves harmless Landlord from and against any claims and all loss, cost, liability, damage and/or expense, including, but not limited to reasonable counsel fees, penalties and fines, incurred in connection with or arising from (i) any default by Tenant in the observance or performance of any of the provisions, covenants or conditions of this Lease on Tenant's part to be observed or performed, (ii) the use or occupancy or manner of use or occupancy of the Demised Premises by Tenant or any person claiming through or under Tenant, or (iii) any acts, omissions, or negligence of Tenant or any such person, or any contractor, agent, servant, employee, visitor or licensee of Tenant, in or about the Demised Premises. If any action or proceeding shall be brought against Landlord based upon any such claim, Tenant, upon notice from Landlord, shall cause such action or proceeding to be defended, at Tenant's expense, by counsel acting for Tenant's insurance carriers in connection with such defense or by other counsel reasonably satisfactory to Landlord.

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Section 7.01. (b) To the extent not covered by the insurance required to be maintained by Tenant hereunder, and subject to the provisions of Article 9 (Waiver of Subrogation), Landlord hereby indemnifies and saves harmless Tenant from and against any claims and all loss, cost, liability, damage and/or expense, including, but not limited to reasonable counsel fees, penalties and fines, incurred in connection with or arising from (i) any default by Landlord in the observance or performance of any of the provisions, covenants or conditions of this Lease on Landlord's part to be observed or performed, or (ii) any acts, omissions, or negligence of Landlord or any such person, or any contractor, agent, servant, employee, visitor or licensee of Landlord, in or about the Demised Premises. If any action or proceeding shall be brought against Tenant based upon any such claim, Landlord, upon notice from Tenant, shall cause such action or proceeding to be defended, at Landlord's expense, by counsel acting for Landlord's insurance carriers in connection with such defense or by other counsel reasonably satisfactory to Tenant.

Section 7.02. Tenant shall, during the Term (including any extension term) and during any period prior to the commencement of the Term during which Tenant or anyone acting by or on behalf of Tenant enters the Demised Premises, at Tenant's own cost and expense, maintain and provide: (a) comprehensive general liability insurance for the benefit and protection of Landlord and Tenant (said policy to name Landlord, ground lessor, if any, and any other parties designated by Landlord, as co-insureds) in an amount not less than \$1,000,000 for injuries or death to any one person, and not less than \$3,000,000 for injuries or death to more than one person in any one accident or occurrence and for damage to property in an amount not less than \$500,000 arising out of any one accident or occurrence; (b) plate glass insurance covering all plate glass in the Demised Premises (which may be self-insured by Tenant); and (c) worker's compensation insurance covering all persons employed in connection with Tenant's use and occupancy of the Demised Premises or any construction or alteration work therein. Said policies shall be issued by companies reasonably satisfactory to Landlord, licensed to do business in the state in which the Demised Premises is located. Said policies or certificates thereof shall be delivered to Landlord at the commencement of the Term (or prior thereto in the event of earlier entry by Tenant upon the Demised Premises), together with proof of payment of premium therefor, and renewal policies or certificates therefor shall be delivered to Landlord not less than thirty (30) days prior to the expiration dates thereof. Said policies and/or certificates shall contain an undertaking by the insurer to give Landlord not less than thirty (30) days written notice of any cancellation or change in scope or amount of coverage of said policies.

Section 7.03. (a) Landlord shall, during the Term, maintain and provide general hazard insurance against loss or damage to the Building by fire, lightning, including "builder's risk endorsements" during the course of construction, other risks from time to time included under standard "Extended Coverage" policies, vandalism and malicious mischief, in amount not less than

100 percent of the full replacement value of the Building and any other Building or portion thereof covered by such insurance and rent loss insurance covering all minimum and additional rental payable hereunder. Following the Commencement Date, Tenant shall pay its proportionate share of the cost of maintaining and providing such insurance, which proportionate share shall be a fraction the numerator of which shall be the floor area of the Demised Premises, and the denominator of which shall be the floor area of the buildings covered by such insurance.

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Section 7.03. (b) Such payment shall be made to Landlord in monthly installments on or before the first day of each calendar month, in advance, in an amount estimated by Landlord. Periodically, Landlord shall furnish Tenant with a written statement of the actual amount of Tenant's proportionate share of said insurance costs. If the total amount paid by Tenant under this section for any period during the Lease Term shall be less than the actual amount due from Tenant for such period, as shown on such statement, Tenant shall pay to Landlord the difference between the amount paid by Tenant and the actual amount due, such deficiency to be paid within ten (10) days after demand therefor by Landlord; and if the total amount paid by Tenant hereunder for any such period shall exceed the actual amount due from Tenant for such period, the excess shall promptly be applied by Landlord to the next accruing monthly installments thereof or, at Landlord's option, to any other charges payable by Tenant. For the calendar years in which this Lease commences and terminates, the provisions of this section shall apply and Tenant's liability for its proportionate share thereof for such years shall be subject to a pro rata adjustment based on the number of days of said calendar years during the Lease Term. Prior to or at the commencement of the Lease Term and from time to time thereafter throughout the Lease term, Landlord will notify Tenant in writing of Landlord's estimate of Tenant's monthly installments due hereunder. Tenant's obligations under this section shall survive the expiration of the Least Term.

Section 7.04. Insurance coverages required of Tenant hereunder shall be reviewed on an annual basis and Landlord may require that said coverages shall be updated in accordance with the provisions hereinabove set forth as to amounts and scope of coverage.

#### ARTICLE 8. FIRE DAMAGE

Section 8.01. If the Demised Premises shall be partially damaged by fire or other insured casualty, the damages shall be repaired by and at the expense of Landlord and the annual minimum rental and additional rent until such repairs shall be made shall abate equitably according to the part of the Demised Premises which is unusable by Tenant (as determined by Tenant in the exercise of Tenant's reasonable discretion) or, if by reason thereof, the Demised Premises are rendered untenable, said annual minimum rental and additional rent shall totally abate until such repairs shall be made. Notwithstanding the foregoing, in the event that more than thirty (30%) percent of the Demised Premises shall be damaged and there shall be less than five (5) years remaining in the term of the Lease, then, and in such event, Landlord may terminate this Lease upon notice to Tenant given within ninety (90) days following such event, and upon the date specified in such notice, which date shall not be less than thirty (30) days nor more than sixty (60) days following the giving of said notice, this Lease shall terminate and Tenant shall vacate and surrender the Demised Premises to Landlord. Notwithstanding the termination right of Landlord set forth in the preceding sentence, Tenant shall have the right to nullify such termination by notifying Landlord that Tenant has elected to exercise its extension option set forth in Article 39 hereof. Any annual minimum rental prepaid by Tenant beyond said date shall be promptly refunded to Tenant. Notwithstanding any of the foregoing provisions of this Article, if Landlord or the holder of any superior mortgage shall be unable to collect all of the insurance proceeds (including rent insurance proceeds) applicable to damage or destruction of the Demised Premises or the Building by fire or other cause, by reason of some action or inaction on the part of the Tenant or any of its

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employees, agents or contractors, then, without prejudice to any other remedies which may be available against Tenant, the abatement of Tenant's rents provided for in this Article shall not be effective to the extent of the uncollected insurance proceeds.

Section 8.02. If this Lease shall not be terminated as provided above in this Article, Landlord shall, at its expense, proceed with the restoration of the Demised Premises, provided, Landlord's obligations hereunder shall not exceed the scope of the initial building standard construction of the Demised Premises and further provided, that Landlord's restoration obligations shall be subject to building and zoning laws then in effect. No penalty shall accrue for reasonable delay which may arise by reason of adjustment of insurance on the part of Landlord. If Landlord shall so restore the Demised Premises, Tenant shall repair, restore and redecorate the Demised Premises and reoccupy and reopen the Demised Premises, within fifteen (15) days following notice of restoration, in a manner and to the condition existing prior to the event of damage, except to the extent that Landlord is obligated above, and Tenant shall hold in trust the proceeds of all insurance carried by Tenant on its property for the purpose of such repair and restoration.

Section 8.03. Nothing hereinabove contained with respect to the Tenant's right to abate the rent under proper conditions shall be construed to limit or effect the Landlord's right to payment under the rental loss coverage to be provided pursuant to Section 7.03 hereof.

#### ARTICLE 9. WAIVER OF SUBROGATION

Section 9.01. Landlord and Tenant each agree to include in their respective insurance policies applicable to the Demised Premises appropriate clauses pursuant to which the insurance company or companies (i) waive the right of subrogation against the other party with respect to losses payable under such policy or policies and/or (ii) agree that such policy or policies shall not be invalidated should the insured waive in writing prior to a loss any or all right of recovery against any party for losses covered by such policy or policies, Landlord and Tenant each agree that it will not make any claim against or seek to recover from the other party for any loss or damage to its property or the property of others covered or which could be covered by such fire or extended coverage insurance./ To the extent that Tenant shall be a self-insurer with respect to Tenant's property, Tenant shall and hereby does waive its right of recovery, if any, against Landlord, its agents and employees, for loss, damage or destruction of Tenant's property.

#### ARTICLE 10. CONDEMNATION

Section 10.01. If the whole of the Demised Premises shall be taken by any governmental authority under the power of condemnation, eminent domain, or expropriation, or in the event of a conveyance in lieu thereof, the Term of this Lease shall cease as of the day possession shall be taken by such governmental authority. If more than 25 percent of the Demised Premises shall be so taken or conveyed, either Landlord or Tenant shall have the right to terminate this Lease upon notice to the other party, effective as of the day possession shall be taken by such governmental authority, If this Lease is so terminated, annual minimum rental shall be prorated as of the date that possession must be surrendered to the condemning authority.

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Section 10.02. If this Lease continues after a partial taking, the annual minimum rental shall abate equitably as to the part of the Demised Premises which is taken. If this Lease continues after any such taking or conveyance, Landlord shall make all necessary repairs and restorations so as to restore the remainder of the Demised Premises to a complete architectural unit. Landlord's reconstruction obligations shall not exceed the amount of the award or compensation for the taking, shall not exceed the scope of the initial building standard construction of the Demised Premises, and shall be subject to building and zoning laws then in effect.

Section 10.03. If so much of the Center, Common Areas or Building shall be so taken or conveyed so that in the reasonable exercise of Landlord's judgment, the continued operation of the Building for use by its tenants is unfeasible, then, in such event, Landlord may, by notice to Tenant, delivered not later than thirty (30) days following the date that possession of the premises taken or conveyed is delivered to the governmental authority, terminate this Lease, and rent shall be pro rated as of the date that possession must be surrendered to the condemning authority.

Section 10.04. Tenant and not Landlord shall be entitled to any portion of the award made to Tenant for the value of Tenant's removable trade fixtures and equipment other than equipment necessary for the operation of the Building. All compensation awarded for the taking of the Building, the fee and the leasehold shall belong to and be the property of Landlord, and Tenant shall not be entitled to and hereby waives any damages for the unexpired portion of the Term of this Lease, or injury to its leasehold interest.

ARTICLE 11. ASSIGNMENT AND SUBLETTING

Section 11.01. Tenant, for itself, its heirs, distributees, executors, administrators, legal representatives, successors and assigns, as the case may be, expressly covenants that it shall not assign, mortgage or encumber this agreement, nor sublet or underlet nor suffer or permit the Demised Premises or any part thereof to be used by others without the prior written consent of Landlord in each instance. If, with consent of Landlord, this Lease may be assigned, or the Demised Premises or any part thereof be undelete or occupied by anybody other than Tenant, Landlord may collect rent from the assignee, undertenant or occupant and apply the amount collected to the rent herein reserved, but no such assignment, underletting, occupancy or collecting shall be deemed to relieve Tenant or any guarantor of this Lease or guarantor of the obligations of Tenant hereunder of any of its or their obligations hereunder nor be deemed a wavier of this covenant, or the acceptance of the assignee, undertenant or occupant as tenant, or a release of Tenant or any guarantor of this Lease or any guarantor of the obligations of Tenant hereunder from its or their obligations under the covenants, provisions and conditions hereof; it being understood and agreed that Tenant and a guarantor of this Lease or any guarantor of the obligations of Tenant hereunder shall at all times, including during any extension term, remain obligated as primary obligors under this Lease. The consent by Landlord to an assignment or underletting shall not in any wise be construed to relieve Tenant or any other Tenant, assignee, undertenant, or occupant of the Demised Premises from obtaining the express consent in writing of Landlord to any further assignment or underletting, and no such assignment or subletting shall be made to anyone who shall occupy the Demised Premises for any use other than as permitted by Section 2.01 or which would in any way violate the applicable ordinances, rules and regulations of applicable governmental boards or bureaus having or claiming jurisdiction

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thereof, or of the carrier of the fire insurance to be provided under this Lease. Notwithstanding anything contained in this Lease to the contrary, in the event that it shall be found by a court of competent jurisdiction that Landlord was unreasonable in withholding its consent to the assignment of this Lease or the subletting of all or any portion of the Demised Premises, Tenant's sole remedy shall be limited to specific performance and Tenant shall not be entitled to damages or any other affirmative relief or remedy as a result thereof. In the event of a leveraged buy-out or other take-over of Tenant, Landlord's consent to an assignment of this Lease or subletting of the Demised Premises to the successor entity shall not be deemed to have been unreasonably withheld if said successor entity shall not have a net worth (in the event of a corporate entity, on a market value basis) as certified to by a certified public accountant at lease equal to the net worth of Tenant upon the date of execution of this Lease.

Section 11.02. Supplementing the provisions of Section 11.01 of this Lease, provided Tenant is not in default under any of the terms, covenants, conditions and provisions of the Lease, Landlord agrees that (a) Landlord's consent shall not be required with respect to any subletting (s) which do not either individually, or in the aggregate, exceed sixty (60%) percent of the floor area of the Demised Premises, and (b) Landlord shall not unreasonably withhold or delay or condition its consent to any proposed assignment of this Lease, or subletting(s) which either individually, or in the aggregate, exceed sixty (60%)percent of the floor area of the Demised Premises; and provided, however, that notwithstanding any such assignment, transfer or subletting, Tenant covenants and agrees that it shall remain liable as a primary obligor for the due performance of all of the covenants, agreements, terms, provisions and conditions of this Lease on the part of Tenant to be performed or observed. Any assignment or transfer of this Lease and any subletting of all or a portion of the Demised Premises shall be subject to Landlord's prior written consent (except as otherwise provided herein) and shall be made only if, and shall not be effective until, the assignee or subtenant shall execute, acknowledge and deliver to Landlord an agreement, in form and substance satisfactory to Landlord and counsel for Landlord, whereby the assignee shall assume for the benefit of landlord the obligations and performance of this Lease and agree to be personally bound by and upon all of the covenants, agreements, terms, provisions and conditions hereof on the part of Tenant to be performed or observed, and whereby Tenant covenants and agrees to remain liable as a primary obligor for the due performance of all of the covenants, agreements, terms, provisions and conditions of this Lease on the part of Tenant to be performed or observed, or with respect to a sublease, the subtenant shall acknowledge in writing for the benefit of the Landlord that the sublease shall be subject to all of the covenants, agreements, terms provisions and conditions of this Lease, and that upon receipt of notice from Landlord that the Tenant is in default hereunder, and during the continuance of any such default, the subtenant agrees to pay all subrent due under the sublease to Landlord. In the event of any assignment of this Lease or any subletting of all or any portion of the Demised Premises, the obligations of Tenant under this Lease as a primary obligor shall be unaffected

and shall remain in full force and effect.

Section 11.03. Notwithstanding anything heretofore contained, in the event that Tenant desires to assign this Lease or sublet all or a portion of the Demised Premises, Tenant shall first notify Landlord in writing of its intention, and such notice shall state the name of the proposed assignee or subtenant, together with its full address and a description of its proposed use (but nothing

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contained herein shall permit, nor obligate Landlord to permit, a use other than the use permitted by Section 2.01 of this Lease, it being understood that any change in use shall be subject to Landlord's consent, which Tenant agrees may, notwithstanding anything contained herein to the contrary, be unreasonably withheld). Tenant shall include therewith such financial information as may be available concerning the proposed assignee or subtenant, including without limitation current updated financial statements (which financial information Tenant, and/or the proposed assignee or subtenant shall supplement on demand if required by Landlord).

Section 11.04. Tenant hereby covenants and agrees to tender to Landlord upon receipt fifty (50%) percent of any annual minimum rent or additional rent or lump sum or installment payment or sum which Tenant shall receive from or on behalf of any assignee(s) or subtenant(s) or any occupant by, through or under Tenant, which is in excess of the annual minimum rent or additional rent payable by Tenant in accordance with the provisions of this Lease (or in the event of a subletting of less than the whole of the Demised Premises, the annual minimum rent or additional rent allocable to that portion of the Demised Premises affected by such sublease) less the actual bona-fide expenses paid by Tenant in connection with such subletting or assignment (e.g. cost of alterations, and brokerage, legal and architectural and engineering fees.) At the time of submission of the proposed assignment or sublease to Landlord, Tenant shall certify to Landlord in writing whether or not the assignee or subtenant has agreed to pay any such monies to Tenant or any designee of Tenant other than as specified and set forth in such instruments, and if so Tenant shall certify the amounts and time of payment thereof, in reasonable detail.

Section 11.05. In the event that any assignee of Tenant (which shall be deemed to include any subsequent assignee(s) of Tenant's initial assignee) shall become insolvent or shall be adjudicated a bankrupt, or shall file a petition for reorganization, arrangement or similar relief under any present or future provisions of the Bankruptcy Act, or if such a petition filed by creditors of any such assignee shall be approved by a court, or if any such assignee shall seek or if there shall be sought against any such assignee a judicial readjustment of the rights of its creditors under any present or future Federal, State or local law, or if a receiver of all or part of its property and assets is appointed by any Court, and in any such proceeding the Lease shall be terminated or rejected, or the obligations of any such assignee thereunder shall be modified, Tenant (which for the purposes hereof shall be deemed to mean the original tenant named hereunder and all subsequent assignee(s) other than the assignee that is subject to the bankruptcy or insolvency provisions referenced above) agrees that it will immediately pay the Landlord an amount equal to all rent and additional rent accrued to the date of such termination, rejection or modification. Tenant shall also pay to Landlord or its successors or assigns, an amount equal to the rent and additional rent which would have been payable under the Lease for the balance of the term thereof or the balance of any extension and/or renewal period then in effect, as the same would have become due and payable in accordance with the provisions of the Lease without regard to any such termination, rejection or modification. Tenant's obligations to make payment in accordance with the terms hereof, shall not be impaired, modified, changed, released or limited in any manner whatsoever by any impairment, modification, change, release or limitation of the liability of any such assignee or its estate in bankruptcy resulting from the

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operation of any present or future provisions of the Bankruptcy Act or other statute, or from the decision of any court.

Section 11.06. Notwithstanding anything to the contrary contained in this Article, Tenant may assign this Lease or sublet any portion of the Demised Premises at any time during the term of this lease, without obtaining Landlord's

consent, upon Tenant giving Landlord prior written notice, to (a) another corporation succeeding to substantially all of the assets of Tenant as a result of a consolidation or merger or to a corporation to which all or substantially all of the assets of Tenant have been sold; (b) a wholly-owned subsidiary corporation; or (c) an affiliated corporation (defined as any corporation whose majority of shares are owned or controlled by the same persons owning or controlling the majority of shares of Tenant); provided: (i) documentation in compliance with Section 11.02 above shall be delivered to Landlord prior to the effective date of such assignment or sublease, and (ii) Tenant shall remain primarily liable under all terms and conditions of this Lease (unless Tenant's corporate existence ends as a matter of law pursuant to such consolidation or merger).

#### ARTICLE 12. COMMON AREA MAINTENANCE

Section 12.01. As used in this lease, the term "Common Area Operating Costs" shall include the total cost and expense incurred by Landlord in operating, lighting, striping, maintaining, cleaning, landscaping, repairing (including replacement and resurfacing) managing, signing, equipping and insuring the Common Areas within Lot No. 3/1 plus ten (10%) percent of the foregoing costs to cover Landlord's administrative and overhead costs. Such costs and expenses shall include without limitation (including appropriate reserves): cleaning; fire and police protection and general security (Landlord not incurring or assuming any obligation to provide such protection or security or any liability for the failure of the same); repairing and replacing paving (provided, however, that notwithstanding the foregoing, in no event shall costs associated with re-surfacing of the Common Areas be included in Common Area Operating Costs for the first five (5) years of the term hereof, it being understood that the foregoing is not intended to exclude routine maintenance of the paved areas, e.g. patching, pothole refilling, striping, etc); keeping the Common Areas supervised, drained, reasonably free of snow, ice, rubbish and other obstructions, and in a neat, clean, orderly and sanitary condition; the charges for rubbish containers and removal (except that at Landlord's option, Tenant shall be directly responsible for contracting for an for providing (subject to Landlord's approval of the provisions and conditions of the agreement therefor) rubbish containers and removal); the maintenance of any and all fire protection systems servicing Lot No. 3/1; the cost of public liability insurance; keeping the Common Areas suitably lighted; maintaining signs (other than Tenant's signs), markers, painted lines delineating parking spaces, and other means and methods of pedestrian and vehicular traffic control; constructing, maintaining and repairing of onsite and offsite traffic controls; maintaining adequate roadways, entrances and exits; maintaining any plants and landscaped areas; Lot No. 3/1 management fees incurred by Landlord, including management fees payable to parties or entities owned or controlled by Landlord or any of them (provided, however in no event shall Landlord include in Common Area Operating Costs both the ten (10%) percent administrative and overhead fee referenced above and management fees); maintenance and repair of all utilities, utility conduits and storm drainage systems situated within or servicing Lot 3/1; fees for required licenses and permits; and depreciation of machinery and equipment used in the operation and maintenance of the Common Areas and personal property

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taxes and other charges incurred in connection with such equipment. The term "Common Areas" shall be defined as all paved areas, driveways, truckways, walkways, and landscaped and planted areas within Lot No. 3/1. Landlord shall maintain, light, clean and repair (including snow removal) the Common Areas so that such Common Areas may be used for their intended purposes, and in order to enable Landlord to perform its obligations as aforesaid, Landlord may incur such Common Area Operating Costs as Landlord, in its sole discretion, may determine.

Section 12.02. During the initial term of this Lease and during any extension term hereof, Tenant shall pay Landlord Tenant's proportionate share of Common Area Operating Costs incurred or expended by Landlord as aforesaid. Such payment shall be made to Landlord in monthly installments on or before the first day of each calendar month, in advance, in an amount estimated by Landlord. Following the expiration of each calendar year during the Lease Term hereof, Landlord shall furnish Tenant with a reasonably detailed written statement of the actual amount of Tenant's proportionate share of the Common Area Operating Costs for such year. Upon request by Tenant, Landlord will provide Tenant with reasonably detailed documentation evidencing the payment of Common Area Operating Costs incurred by Landlord. If the total amount paid by Tenant under this section for any calendar year during the Lease term shall be less than the actual amount due from Tenant for such year, as shown on such statement, Tenant shall pay to Landlord the difference between the amount paid by Tenant and the actual amount due, such deficiency to be paid within ten (10) days after demand therefor by Landlord; and if the total amount paid by Tenant hereunder for any such calendar year shall exceed such actual amount due from Tenant for such

calendar year, such excess shall promptly be applied by Landlord to the next accruing monthly installments of Tenant's proportionate share of Common Area Operating Costs or, at Landlord's option, to any other charges payable by Tenant. Tenant shall have the right, upon reasonable prior notice and at mutually acceptable times (not more than once per year) to conduct an audit of Landlord's books and records with respect to Common Area Operating Costs billed to Tenant hereunder. For the calendar years in which this Lease commences and terminates, the provisions of this section shall apply, and Tenant's liability for its proportionate share of any Common Area Operating Costs for such years shall be subject to a pro rata adjustment based on the number of days of said calendar years during the Lease term. Prior to or at the commencement of the Lease term and from time to time thereafter throughout the Lease term, Landlord will notify Tenant in writing of Landlord's estimate of Tenant's monthly installments due hereunder, Landlord shall have the right to make special assessments from time to time for extraordinary Common Area Operating Costs and Tenant shall pay any such special assessment within ten (10) days following Landlord's billing therefor. Extraordinary Common Area Operating Costs shall include, without limitation, any charge which would otherwise constitute a common Area Operating Expense and not anticipated by Landlord in determining Landlord's estimate of Tenant's proportion of shares of Common Area Operating Costs for the year in question and any charges, costs and expenses incurred by Landlord which might cause the amounts paid by Tenant pursuant to Landlord's estimate of Tenant's proportionate share of Common Area Operating Costs for the year in question to be less than the amount actually due from Tenant for such year pursuant to this Section 12.02. Tenant's obligations under this section shall survive the expiration of the Lease term. Tenant's proportionate share of Common Area Operating Costs shall be a fraction, having as its numerator, the number of square feet of floor area within the Demised Premises and as its denominator, the total number of square

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feet of floor area of all buildings within Lot No. 3/1 or, at Landlord's option, the portion thereof affected by such cost, including the Demised Premises. Notwithstanding the foregoing provisions of this Article, in the event the obligations of Tenant under this Article 12 are specifically identifiable separate charges reflecting to Tenant and/or the Demised Premises, then, and in such event, the obligations of Tenant under this Article 12 may, at the Landlord's option be measured and payable in accordance with such separate and specifically identifiable charge and not by the provisions of the preceding sentence. Landlord shall deliver copies of any invoice with respect to any expense included within Common Area Operating Expenses on request therefor provided such request is made within thirty (30) days of the date Tenant receives a statement which includes the expense in question.

Section 12.03. Tenant, its concessionaires, officers, employees, and agents may use the Common Areas, subject to such reasonable rules and regulations as Landlord may from time to time impose, including the designation of specific areas in which vehicles owned or operated by Tenant, its concessionaires, officers, employees and agents must be parked. Tenant shall abide by such rules and regulations and cause its concessionaires, officers, employees, agents, customers and invitees to conform thereto. Landlord may, at any time, close temporarily any Common Areas to make repairs or changes therein or to effect construction repairs or changes within Lot No. 3/1, and Landlord may do such other acts in and to the Common Areas as in its reasonable judgment may be desirable to improve the convenience thereof.

Section 12.04. Notwithstanding anything to the contrary herein contained, Landlord hereby reserves the right (and Tenant hereby consents thereto) to construct or permit the construction, use and maintenance within the Common Areas of Lot No. 3/1 including without limitation, the parking areas, of various commercial type buildings, structures, and appurtenances, and equipment incidental thereto, except that the foregoing shall not be permitted in Tenant's Parking Area.

Section 12.05 Notwithstanding anything to the contrary set forth herein, if Landlord defaults in its obligations to maintain the Common Areas within the Center as required pursuant to this Article 12, and such default continues after not less than thirty (30) days prior written notice to Landlord specifying the nature of such default, and which notice shall also specifically state that Tenant shall have the right to cure such default, Tenant may undertake to remedy the then existing deficiencies and all necessary and reasonable out of pocket costs and expenses so incurred by Tenant may be deducted by it from the next installments of annual minimum rent, additional rent and/or other charges due to Landlord hereunder. In addition, Tenant shall have the right, but shall not be obligated to, notify Landlord that Tenant shall take over the responsibility of maintenance for that portion of the Common Areas designated as "Tenant's Parking Area" on Exhibit "A", and in such event Tenant shall be responsible for providing all maintenance for Tenant's Parking Area, in accordance with the



requirements of Article 12 in essentially the same manner as was previously performed by Landlord. Notwithstanding anything to the contrary hereinabove set forth in this Section 12.05, it is agreed that Tenant's right to perform all maintenance for the Tenant's Parking Area shall be dependent upon Tenant's prompt and satisfactory performance of same. In the event that Landlord determines, in Landlord's reasonable judgment, that Tenant is not promptly and satisfactorily performing such maintenance, Landlord shall provide notice of same to Tenant, which notice shall set forth Landlord's specific objections to the manner of Tenant's

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performance of such exterior maintenance. Tenant shall have thirty (30) days following such notice (or in emergency situations such shorter time periods as Landlord may designate in its notice to the Tenant) within which to remedy the objections specified in Landlord's notice, failing which Landlord can elect to take over the performance of same upon thirty (30) days notice to Tenant.

#### ARTICLE 13. UTILITIES

Section 13.01. Tenant shall pay, as and when they shall be due and payable, all water charges, taxes, water rates and/or meter charges, sprinkler charges (standby or otherwise), sewer taxes, sewer charges, sewer fees, and sewer rental taxes and charges for utilities, including, without limitation, the charges for gas, electricity, and other utilities furnished to Tenant and consumed in the Demised Premises. Tenant shall heat the Demised Premises whenever the weather shall require. If Landlord, or any property of Landlord, shall be held responsible for any expense covered by this Article, Tenant shall pay Landlord the amount thereof within five (5) days following written request. Landlord shall not be responsible to Tenant for any failure or interruption of any such services, irrespective of the cause thereof.

#### ARTICLE 14. TAXES

Section 14.01. (a) During the Term of this Lease, Tenant shall pay, as additional rent, all taxes, duties, assessments and charges commonly and generally referred to as "real estate taxes" and assessment, whether general or special, of every kind and nature whatsoever which have been or which shall during said Term or any renewal thereof, be levied, assessed, or otherwise imposed upon the land within the Demised Premises, or any part thereof, and upon the buildings and improvements which may be thereon or which may hereafter during the said Term, or any renewal thereof, be erected or constructed thereon. The term "real estate taxes" for purposes of this Lease shall exclude income, franchise, estate or inheritance taxes levied against Landlord or taxes based upon rental receipts, but shall include any taxes levied in lieu of or as a substitute for real estate taxes. In the event any assessment against the Center shall be payable in a lump sum or on an installment basis, Landlord shall elect to pay any such assessment over the longest permissible period, and there shall be included in real estate taxes only those installments which shall become due and payable during the Lease Term. Any such installments due and payable in the years in which this Lease commences and terminates shall be prorated proportionately. Tenant shall pay to Landlord, as additional rent, at the time and in the manner set forth in Section 14.01 (b), Tenant's proportionate share of such taxes, which proportionate share shall be based upon the methods of calculation set forth in Sections 14.02 and 14.03 hereof. Tenant understands that the Demised Premises are part of a larger tract and that under the present status of the law of New Jersey, the improvements within the Center and the land within the Demised Premises may not receive a separate assessment attributable solely thereto.

Section 14.01. (b) All amounts payable by Tenant pursuant to this Article shall be paid to Landlord in monthly installments on or before the first day of each calendar month, in advance, in an amount estimated by Landlord; provided, that in the event Landlord is required under any mortgage encumbering the Center to escrow real estate taxes, Landlord may, but shall not be obligated to, use the amount required to be so escrowed as a basis for its

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estimate of the monthly installments due from Tenant hereunder. As soon as shall be reasonably practicable following each calendar year during the Lease Term, Landlord shall furnish Tenant with a written statement of the actual amount of Tenant's share of the taxes for such year. If the total amount paid by Tenant

under this section for any calendar year during the Lease Term shall be less than the actual amount due from Tenant for such year, as shown on such statement, Tenant shall pay to Landlord the difference between the amount paid by Tenant and the actual amount due, such deficiency to be paid within ten (10) days after demand therefor by Landlord; and if the total amount paid by Tenant hereunder for any such calendar year shall exceed such actual amount due from Tenant for such calendar year, such excess shall be applied by Landlord to the next accruing monthly installments of taxes due from Tenant or, at Landlord's option, to any other charges payable by Tenant. For the calendar years in which this Lease commences and terminates the provisions of this Section shall apply, and Tenant's liability for its share of taxes for such years shall be subject to a pro rata adjustment based on the number of days of said calendar years during the Lease Term. Prior to or at the commencement of the Lease Term and from time to time thereafter throughout the Lease Term, Landlord may notify Tenant in writing of Landlord's estimate of Tenant's monthly installments due hereunder. Tenant's obligations under this Section and Landlord's obligations to refund overpayment hereunder to Tenant shall survive the expiration of the Lease Term.

Section 14.02. Tenant shall pay its proportionate share of the taxes upon the land within the Center based upon the following formula: The taxes upon the land within the Center (or the land taxes applicable to the parcel within which the Demised Premises is included) (inclusive of the Demised Premises) shall be multiplied by a fraction having as its numerator the floor area of the Demised Premises and as its denominator the floor area of buildings in the Center (or upon the parcel within which the Demised Premises is included) (inclusive of the Demised Premises), but in no event shall Tenant's proportionate share of the entire taxes upon the land in the Center exceed 23.1%.

Section 14.03. If the improvements (or any portion thereof) within the Demised Premises or the building or buildings (or part thereof) of which the Demised Premises is a part shall receive a separate assessment, the taxes payable by Tenant under this Lease for such improvements shall be based thereon. Such improvements shall be deemed to be separately assessed if the same is separately assessed according to the real estate tax bill, the assessor's records or written certification by the assessor (any such separate assessment is hereinafter referred to as the "Tenant Assessment") In the event no such separate assessment is obtained, Tenant shall pay its proportionate share of the taxes attributable to the improvements within the Center, which proportionate share shall be a fraction having as its numerator the floor area of the Demised Premises and as its denominator the floor area of all buildings (or the relevant portion thereof) included within the assessment of which the Demised Premises is a part (inclusive of the Demised Premises), plus Tenant shall pay one hundred (100%) percent of the taxes payable upon any increased assessment of the Center attributable to improvements constructed at the Demised Premises by Tenant.

Section 14.04. Tenant shall be liable for all taxes on or against property and trade fixtures and equipment placed by Tenant in or about the Demised Premises, or taxes on Tenant's right to occupy the Demised Premises. If any such taxes are levied against the Landlord or Landlord's property, and if Landlord pays same, or

if the assessed valuation of Landlord's property is increased by the inclusion therein of a value placed upon such property, and if the Landlord pays the taxes based on such increased assessment, Tenant, upon demand, shall repay to Landlord the taxes so paid by Landlord or the portion of such taxes resulting from such increase in assessment.

Section 14.05. Tenant may, upon not less than thirty (30) days' prior written notice to Landlord, request if Landlord intends to prosecute an action to contest the amount of real estate taxes separately assessed against the Building (such contest hereinafter referred to as the "Tax Appeal"). Such notice shall specifically state that in the event Landlord shall not respond thereto within thirty (30) days that Tenant shall have the right to prosecute the Tax Appeal, in Landlord's or Tenant's name. In the event that Landlord advises Tenant that Landlord is not prosecuting the Tax Appeal, Tenant shall have the right to prosecute the Tax Appeal. Landlord agrees to cooperate with Tenant in prosecuting the Tax Appeal. Tenant agrees that any compromise, settlement or discharge of any such proceedings shall be subject to Landlord's prior written approval, not to be unreasonably withheld or delayed, and conditioned upon and subject to the option of Landlord to take over such proceedings prior to the settlement or discharge thereof, provided, however, that if Landlord should take over such proceedings or shall itself institute any such proceedings, Landlord shall diligently prosecute the same and shall not compromise, settle or discharge such proceedings without Tenant's prior written approval, not to be unreasonably withheld or delayed. If Landlord receives a refund for any year for which a tax payment shall have been made by Tenant, then Landlord, after paying all reasonable costs and expenses incurred in connection with the attainment of

such refund, shall repay to Tenant, within thirty (30) days after such refund is received by or credited to Landlord, an amount equal to Tenant's Proportionate Share of the refund and of any interest received thereon. In the event that for any year Tenant contests the Taxes and a refund is issued for such year, then such refund shall first be used to reimburse Tenant for all reasonable costs and expenses incurred by Tenant in connection with the attainment of such refund, then in payment of Tenant's Proportionate Share of the refund, which amount shall be retained by Tenant, and then the balance of the refund shall be paid to Landlord. In addition, Tenant agrees to cooperate with other tenants of the Center who may have the right to bring such proceedings, provided, however, that Landlord agrees to impose a like obligation of all other future tenants of the Center who have the right to bring such proceedings.

#### ARTICLE 15. REMEDIES OF LANDLORD

Section 15.01. (a) If Tenant shall default in the payment of the annual minimum rental reserved herein, or in the payment of any item of additional rent or other monies due hereunder, or any part of same, and any such default shall continue for more than ten (10) days after written notice of such default; or

Section 15.01. (b) If Tenant shall default in the observance of any of the provisions, covenants and conditions of this Lease (other than a default covered by subsection (a) above and other than Sections which provide a specific period or date for performance), and such default shall continue for more than thirty (30) days after written notice of such default, or for such other period provided in the relevant Section hereof, provided, however, in the event such default cannot be cured within such thirty (30)

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day period or such other period provided in the relevant Section hereof, then Tenant shall not be in default so long as Tenant commences the cure thereof within such thirty (30) day period or such other period provided in the relevant Section hereof and diligently prosecutes the cure of such default to completion at all times; or

Section 15.01. (c) If the Demised Premises shall be abandoned, or if Tenant shall sublet the Demised Premises or assign this Lease, except as herein provided, or if Tenant shall be in default under any other obligations of Tenant to Landlord of any nature whatsoever, or if Tenant shall be in default under any other lease of space in either any building located on Lot 3/1 or in the center commonly known as Shrewsbury Executive Center in which Tenant holds the interest of tenant thereunder; or

Section 15.01. (d) If Tenant or any guarantor of Tenant's obligations hereunder shall make an assignment for the benefit of creditors, or if any such party shall file or have filed against it a petition in bankruptcy, or be adjudicated a bankrupt by any court and such adjudication shall not be vacated within thirty (30) days, or if Tenant or any guarantor of Tenant's obligations hereunder takes the benefit of any insolvency act, or if Tenant or any guarantor of Tenant's obligations hereunder be dissolved voluntarily or involuntarily or have a receiver of its property appointed in any proceedings other than bankruptcy proceedings and such appointment shall not be vacated within thirty (30) days after it has been made, or if any levy, sale or execution of any kind is made upon or of any property of Tenant in the Demised Premises; then, upon the happening of any one or more of the defaults or events specified above, at the option of Landlord: (1) this Lease and the Term hereof shall wholly cease and terminate, with the same force and effect as though such termination was the date of the expiration of the Term of this Lease, and thereupon, or at any time thereafter, Landlord may re-enter said premises either by force, or otherwise, and have possession of the same and/or may recover possession thereof by summary proceeding, or otherwise (but Tenant shall remain liable to Landlord as hereinafter provided); or (2) Landlord may, without further notice, exercise any remedy available at law or in equity.

Section 15.02. In case of any default, event, re-entry, expiration, termination and/or dispossession by summary proceedings, or otherwise, Tenant shall, nevertheless, remain and continue liable to Landlord in a sum equal to all annual minimum rental and additional rent herein reserved for the balance of the Term herein demised as the same may become due and payable pursuant to the provisions of this Lease. Landlord may repair or alter the Demised Premises in such manner as to Landlord may deem necessary or advisable, and/or let or re-let the Demised Premises and any and all parts thereof for the whole or any part of the remainder of the original Term hereof or for a longer period, in Landlord's name, or as the agent of Tenant, and, out of any rent so collected or received, Landlord shall, first, pay to itself, the expense and cost or retaking, repossessing, repairing and/or altering the Demised Premises, and the expense of removing all persons and property therefrom, second, pay to itself, any cost or expense sustained in securing any new tenant or tenants, and third, pay to

itself, any balance remaining on account of the liability of Tenant to Landlord for the sum equal to the annual minimum rental and additional rent reserved herein and unpaid by Tenant for the remainder of the Term herein demised. Any entry or re-entry by Landlord, whether had or taken under summary proceedings or otherwise, shall not absolve or discharge Tenant from liability

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hereunder. Landlord shall use commercially reasonable efforts to re-let the Deposited Premises as hereinabove provided.

Section 15.03. Should any rent so collected by Landlord after the payment aforesaid by insufficient fully to pay to Landlord a sum equal to all annual minimum rental and additional rent herein reserved, the balance or deficiency shall be paid by Tenant on the rent days herein specified; that is, upon each of such rent days Tenant shall pay to Landlord the amount of the deficiency then existing and Tenant shall be and remain liable for any such deficiency, and the right of Landlord to recover from Tenant the amount thereof, or a sum equal to the amount of all annual minimum rental and additional rent herein reserved if there shall be no reletting, shall survive the issuance of any dispossession warrant or other termination thereof.

Section 15.04. Suit or suits for the recovery of such deficiency or damage, or for a sum equal to any installment or installments of annual minimum rental or additional rent hereunder, may be brought by Landlord from time to time at Landlord's election, and nothing herein contained shall be deemed to require Landlord to await the date on which this Lease or the Term hereof would have expired by limitation had there been no such default by Tenant or no such termination or cancellation.

Section 15.05. Tenant hereby expressly waives service of any notice of intention to re-enter subsequent to the giving of the aforesaid notices under Section 15.01 above. Tenant hereby expressly waives any and all right to recover or regain possession of the Demised Premises or to reinstate or to redeem this tenancy or this Lease as is permitted or provided by or under any statute, law, or decision now or hereafter in force and effect.

Section 15.06. Tenant shall reimburse Landlord, within five (5) days following written demand, for any counsel fees or collection charges incurred or expended by Landlord by reason of Tenant's default in the performance of any provision, covenant, or condition of this Lease and any such amounts, at the option of Landlord, may be recovered in the same action or proceeding forming the basis of the default or in another action or proceeding.

Section 15.07. Notwithstanding any other remedy provided for hereunder and without the requirement of notice, except as provided in this Section, if Tenant shall not comply with any of its obligations hereunder, Landlord shall have the right, at Landlord's sole option, at anytime in the event of an emergency or otherwise after three (3) days notice to Tenant, to cure such breach at Tenant's expense. Tenant shall reimburse Landlord, within three (3) days following demand, as additional rent, for all costs and expenses incurred by Landlord in curing such breach, together with interest computed thereon at the rate of eighteen (18%) percent per annum or the maximum rate permitted by law, whichever shall be the higher.

Section 15.08. Notwithstanding anything to the contrary contained in this Lease, if Tenant fails to pay any rent, additional rent or any other money item due hereunder within thirty (30) days after same are due and payable, Landlord shall have the right (in addition to any other rights or remedies of Landlord and without the requirement of any notice) to commence immediate legal proceedings or action for dispossession and damages or Landlord may avail itself of any other remedies at law or in equity and include in such action or proceeding any amounts then due and payable as of the date of the commencement of such action or proceeding. Notwithstanding anything contained in this Lease, if Tenant fails

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to pay any monetary items due hereunder within ten (10) days following the date on which the same are due and payable, a late charge of four (\$.04) cents for each ONE (\$1.00) DOLLAR so overdue shall become immediately due and payable to the Landlord as damages for failure to make prompt payment and the same shall be considered as additional rent hereunder payable together with the next

installment of monthly rent. In the event that Tenant defaults in the payment of rent more than once in any twelve (12) month period, the aforesaid late charge shall be due and payable upon the second day of the month if payment has not been made on or before the first of said month. In addition, all such unpaid monetary items shall bear interest at a rate equal to prime rate as published in The Wall Street Journal plus five (5%) percent from the date such monies were due until the date on which Landlord shall receive payment.

Section 15.09. The rights and remedies whether herein or elsewhere provided in this Lease shall be cumulative and the exercise of any one right or remedy shall not preclude the exercise of or act as a waiver of any other right or remedy of Landlord hereunder, or which may be existing at law, or in equity, by statute or otherwise.

Section 15.10. Tenant covenants and agrees to give any mortgagee and/or ground lessor of the Center or any portion thereof notice of any default by Landlord under this Lease and such mortgagee and/or ground lessor shall be afforded the right (but shall not have the obligation) to cure any default by Landlord within such reasonable period of time as may be required by such mortgagee and/or ground lessor.

#### ARTICLE 16. WAIVER OF TRIAL BY JURY

Section 16.01. It is mutually agreed by and between Landlord, Tenant and any guarantor of the obligations of Tenant hereunder, that the respective parties hereto shall and they hereby do waive trial by jury in any action, proceeding, or counterclaim brought by the parties hereto on any matters whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use or occupancy of the Demised Premises, and/or any claim of injury or damage, and any emergency, summary or statutory remedy. If Landlord commences any summary proceeding, or any other action for collection of rent or additional rent hereunder, Tenant shall not interpose any counterclaim or cross claim of any nature in any such proceeding or action, nor shall Tenant mover to consolidate any such claim with any claim being maintained by Landlord.

#### ARTICLE 17. ACCESS TO PREMISES

Section 17.01. Landlord and its designees shall have the right to enter upon the Demises Premises at all times to inspect and examine same, to make repairs, additions, alterations, or improvements to the Demised Premises, the Building within which the Demised Premises are located or any property owned or controlled by Landlord within such Building. Landlord's rights of entry as aforesaid, and the taking of all property into and upon the Demised Premises that may be required in connection therewith, shall not be considered an eviction of Tenant, in whole or in part, constructive or otherwise, and Landlord shall not be liable to Tenant for any expense, damage, or loss or interruption of the business of Tenant by reason thereof, and the rent reserved hereunder shall continue without abatement during the period of any such entry and while

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such repairs, alterations, improvements or additions are being made. Landlord or Landlord's designees shall have the right to enter the Demised Premises at all times to show the Demised Premises to prospective purchasers, mortgagees or lessees of the Demised Premises or building of which the Demised Premises form a part. During the six month period prior to the expiration of the Term hereof, Landlord may exhibit the Demised Premises to prospective tenants and Landlord may place within the Common Areas notices reading, "To Let" or "For Rent", which notices Tenant shall allow to be posted conspicuously without molestation.

#### ARTICLE 18. NO WAIVER

Section 18.01. No delay or omission of the exercise of any right by either party hereto shall impair any such right or shall be construed as a waiver of any default or as acquiescence therein. One or more waivers of any provision, covenant, or condition of this Lease by either party shall not be construed by the other party as a waiver of a subsequent breach of any other or the same provisions, covenant, or condition. No requirements whatsoever of this Lease shall be deemed waived or varied because of either party's failure or delay in taking advantage of any default, and Landlord's acceptance of any payment from Tenant with actual or constructive knowledge of any default shall not constitute a waiver of Landlord's rights in respect to such default, nor of any subsequent or continued breach of any such default or any other requirement of this Lease.

Section 18.02. No payment by Tenant or receipt by Landlord of a lesser amount than the rent or other sum stipulated to be paid or reserved shall be deemed to be other than on account of the earliest stipulated or reserved sum payable, nor shall any such payment and acceptance by Landlord be deemed an

accord and satisfaction or a modification or waiver of any rights or obligations or liabilities hereunder notwithstanding any statement, written or oral, accompanying such payment, or by way of endorsement or otherwise; and Landlord may accept any such payment whether by check, draft or other means whatsoever without prejudice to Landlord's right to recover the balance owing, or to pursue any other remedy in this Lease or at law or in equity provided. Landlord may, at Landlord's option, accept payment of rent or any other charge hereunder from any person or entity other than the Tenant named herein and the same shall not constitute a recognition by Landlord of, or vest in said person or entity, any rights hereunder.

#### ARTICLE 19. REQUIREMENTS OF LAW;

##### INSURANCE REQUIREMENTS

Section 19.01. In Tenant's performance of its rights and obligations under this Lease, including without limitation, any preterm right, obligation or entry into the Demised Premises, Tenant covenants and agrees to comply with all laws, orders, and regulations of federal, state, city, county, governmental and municipal authorities, fire insurance rating organizations and fire insurance underwriters, and insurance companies issuing coverage respecting the Demised Premises and Tenant shall make all alterations or installations necessary to comply therewith which may be applicable to the Demised Premises (which shall not be deemed to include structural alterations or installations unless required by reason of any act or conduct on the part of the Tenant, or by reason of the character of its occupancy of the Demised Premises). Tenant shall secure all permits or approvals necessary to operate its business within the Demised Premises and shall only

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operate its business within the Demised Premises in compliance with all laws, orders and regulations of federal, state, city and county, governmental and municipal authorities, fire insurance rating organizations and fire insurance underwriters, and insurance companies issuing coverage respecting the Demised Premises.

Section 19.02. Tenant shall not use or occupy the Demised Premises or do or permit anything to be done therein in any manner which shall make it impossible for Landlord and/or Tenant to obtain at standard rates any insurance required or desired, or which will invalidate or increase the cost to Landlord of any insurance.

Section 19.03. If, by reason of Tenant's failure to comply with the provisions of Section 19.01 above, or if, by reason of any act or failure to act of Tenant, its agents, servants, contractors, employees or licensees, or if, by reason of the use of the Demised Premises, the fire insurance rates applicable to the Demised Premises, or of the Building or any other premises in said Building, shall be increased above the rate applicable to the occupancy permitted hereunder, Tenant shall pay to Landlord, within three (3) days following demand, the amount of additional premium for fire insurance payable by reason thereof.

Section 19.04. No abatement, diminution, or reduction in annual minimum rental or any sums constituting additional rent shall be claimed by or allowed to Tenant for any inconvenience or interruption, cessation or loss of business caused directly or indirectly, by any present or future laws, ordinances, rules or regulations, requirements or orders of federal, state, county, township or municipal governments or any other lawful authority whatsoever, or by priorities, rationing, or curtailment of labor or materials, or by war, civil commotion, strikes or riots, or any manner or thing resulting therefrom, or by any other cause or causes beyond the control of Landlord, nor shall this Lease be affected by any such causes.

#### ARTICLE 20. SIGNS

Section 20.01. Tenant shall not place, install or maintain any sign upon or outside the Demised Premises or in the Center until approved by Landlord, nor shall Tenant place, install or maintain any sign within one-half mile of the Center; nor shall Tenant place, install or maintain any awning, canopy, aerial, antenna or the like in or upon the Demised Premises, the Building or the Center. Any sign must conform to all applicable rules, regulations, codes and directives of governmental agencies having jurisdiction, and Tenant shall, at its expense, apply for and obtain all permits necessary in connection therewith. If Landlord shall submit to Tenant a general sign criteria or specification, Tenant shall comply therewith. Tenant shall be solely responsible for all maintenance and repairs respecting its signs. Notwithstanding the foregoing, Tenant shall be permitted to place a panel on the Center identification sign, and subject to local code, Tenant may place a sign on the lawn in front of the Building,

subject to Landlord's approval of the size and design thereof, which approval shall not be unreasonably withheld or delayed.

ARTICLE 21. TENANT'S ADDITIONAL COVENANTS

Section 21.01. Tenant covenants and agrees for itself, its officers, employees, contractors, agents, servants, licenses, invitees, subtenants, concessionaires, and all others doing

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business with Tenant (hereinafter for the purposes of this Article, collectively referred to as "Tenant") that:

(a) Deleted prior to execution.

(b) Tenant shall not encumber or obstruct the Center or sidewalks in and about the Demised Premises;

(c) Tenant shall not display, advertise or sell its products or goods in the Common Areas of the Center or sidewalk in and about the Demised Premises;

(d) Deleted prior to execution.

(e) Tenant shall not cause or permit trash, refuse, dirt or other rubbish to accumulate on the Demised Premises or in the Center and shall cause same to be promptly removed;

(f) Tenant shall not injure, overload, deface, commit waste or otherwise harm the Demised Premises or any part thereof;

(g) Tenant shall not commit any nuisance;

(h) Tenant shall not permit the emission from the Demised Premises of any objectionable noise or odor;

(i) Tenant shall not burn any trash, rubbish, dirt or refuse within the Center;

(j) Tenant shall use the Demised Premises only for business and commercial purpose (subject to the provisions of Article 2 hereof) and Tenant shall not use, allow or permit any industrial, manufacturing or processing activities within the Demised Premises, except as may be expressly permitted by Section 2.01 of this Lease;

(k) Tenant shall conform and comply with all non-discriminatory and uniformly applicable rules and regulations which Landlord may promulgate for the management and use of the Center;

(l) Tenant shall not use any advertising medium that may constitute a nuisance, such as loudspeakers, sound amplifiers or phonographs, in a manner to be heard outside the Demised Premises;

(m) Tenant shall cooperate with Landlord in promoting the use of the name of the Center;

(n) Tenant shall not place a load on any floor of the Demised Premises exceeding the floor load per square foot which such floor was designed to carry;

(o) Tenant shall not install, operate or maintain in the Demised Premises any electrical equipment which will overload the electrical system therein or any part thereof beyond the capacity for proper and safe operation, as determined by Landlord, in relation to the overall system and requirements for electricity in the Building;

(p) Tenant shall not install, operate, or maintain any electrical equipment in the Demised Premises which does not bear underwriters approval; and

(q) No portion of the Demised Premises shall be used or occupied for the sale, dispensing, storage or display of food, foodstuffs, or food products for consumption on or off the Demised

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Premises, provided that the foregoing shall not prohibit the use and occupancy of the Demised Premises as permitted by Section 2.01 hereof.

#### ARTICLE 22. EASEMENTS FOR UTILITIES

Section 22.01. Landlord or its designee shall have the right and Tenant shall permit Landlord or its designee to erect, use, maintain and repair pipes, cables, conduits, plumbing, vents and wires in, to and through the Demised Premises as and to the extent that Landlord may now or hereafter deem necessary or appropriate for the use or proper operation and maintenance of the Demised Premises, or the Building or any other portion of the Center. Landlord's rights under this Article shall be exercised, as far as practicable, in such manner as to avoid unreasonable interference with Tenant's occupancy of the Demised Premises.

#### ARTICLE 23. CONSENTS AND APPROVALS

Section 23.01. With respect to any provision of this Lease providing that Landlord shall not unreasonably withhold or unreasonably delay any consent or any approval, Tenant, in no event, shall be entitled to make, nor shall Tenant make, any claim for, and Tenant hereby waives any claim for money damages; nor shall Tenant claim any money damages by way of setoff, counterclaim or defense, based upon any claim or assertion by Tenant that Landlord has unreasonably withheld or unreasonably delayed any consent or approval; but Tenant's sole remedy shall be an action or proceeding to enforce any such provision, or for specific performance, injunction or declaratory judgment.

#### ARTICLE 24. THERE IS NO ARTICLE 24 IN THIS LEASE

#### ARTICLE 25. END OF TERM HOLDOVER

Section 25.01. If the last day of the Term of this Lease falls on a Sunday, or legal holiday, this Lease shall expire on the business day immediately following. Upon the expiration or other termination of the Term of this Lease, Tenant shall quit and surrender to Landlord the Demised Premises, together with all buildings and improvements thereon, "broom-clean" and in good order and condition, ordinary wear and tear and damage by the elements excepted, and Tenant shall thereupon remove all property of Tenant and, failing to do so, Landlord may cause all of the said property to be removed, stored and/or disposed of at the expense of Tenant. Tenant shall pay all costs and expenses thereby incurred. Any property not so removed shall be deemed to have been abandoned by Tenant and may be retained or disposed of by Landlord as Landlord, in its sole discretion, shall determine and Tenant hereby releases Landlord from all claims for loss or damage to such property arising out of such retention or disposition thereof. Tenant's obligations under this Article shall survive the expiration or other termination of the Term of this Lease.

Section 25.02. If Tenant remains in possession of the Demised Premises at the expiration of the Term hereof, Tenant, at Landlord's option, shall be deemed to be occupying the Demised Premises as a Tenant from month to month, at a monthly rental equal to twice the sum of the monthly installment of annual minimum rent payable during the last month of the Term hereof plus all additional rent coming due hereunder. In the event of such

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holdover, Tenant's occupancy of the Demised Premises, except as aforesaid, shall be subject to all other conditions, provisions and obligations of this Lease, but only insofar as the same are applicable to a month to month tenancy. Such month to month tenancy shall be terminable by Landlord upon one (1) month's notice to Tenant, and if Landlord shall give such notice, Tenant shall quit and surrender the Demised Premises to Landlord as above provided.

#### ARTICLE 26. AUTHORITY TO EXECUTE

Section 26.01. Landlord and Tenant do hereby respectively represent to the other that it has the capacity to enter into this Agreement.

#### ARTICLE 27. NOTICES

Section 27.01. All notices to be given pursuant to this Lease shall be in writing and sent by prepaid certified or registered U.S. mail, return receipt requested, or by a recognized overnight courier service which requires acknowledgment of receipt of delivery from addressee, to the address of the parties below specified or at such other address as may be given by written notice in the manner prescribed in this paragraph. Landlord's address for notice shall be c/o National Realty & Development Corp., 3 Manhattanville Road, Purchase, New York 10577. Tenant's address for notices shall be as follows:



Programmer's Paradise, Inc., 1163 Shrewsbury Avenue, Shrewsbury, New Jersey 07702, Attn: Chief Financial Officer, with a copy of all notices sent to: Giordano, Halleran & Ciesla, 125 Half Mile Road, Lincroft, New Jersey 07738, Attn: Edward S. Radzely, Esq. Notice shall be deemed to be given upon delivery to the U.S. Postal Service or recognized overnight courier service.

#### ARTICLE 28. NO BROKER

Section 28.01. Each party represents and warrants to the other party that it dealt with no broker or other person entitled to claim fees for such services in connection with the negotiation, execution and delivery of this Lease. Each party agrees to defend, indemnify and hold the other party harmless from and against any and all claims for finders' fees or brokerage or other commission which may at any time be asserted against the indemnified party founded upon a claim that the substance of the aforesaid representation of the indemnifying party is untrue, together with any and all losses, damages, costs and expenses (including reasonable attorneys' fees) relating to such claims or arising therefrom or incurred by the indemnified party in connection with the enforcement of this indemnification provision.

#### ARTICLE 29. MEMORANDUM OF LEASE

Section 29.01. Tenant agrees not to record this Lease. The parties agree, upon request of either, to execute, in recordable form, a short lease entitled "Memorandum of Lease", it being the intention of the parties that this Lease will not be recorded, but only a memorandum thereof. Such short form lease shall contain those provisions of this Lease as shall be desired in the reasonable discretion of counsel for the parties hereto, provided that in no event shall such short form lease contain any

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provisions relevant to the annual minimum rent and/or additional rent payable under this Lease.

#### ARTICLE 30. AIR AND WATER POLLUTION

Section 30.01. Tenant hereby indemnifies and saves Landlord harmless against any claim, damage, liability, costs, penalties or fines which the Landlord may suffer as a result of air, land or water pollution caused by Tenant in its use or occupancy or manner of use or occupancy of the Demised Premises or in its storage, handling, possession, transportation and/or disposal of any Hazardous Waste or Hazardous Substance (as such terms are hereafter defined) within or about the Demised Premises. Tenant covenants and agrees to notify Landlord immediately of any claim or notice served upon it with respect to any such claim that Tenant is causing air, land or water pollution; and Tenant, in any event, will take immediate steps to halt, remedy and cure any pollution of air, land or water caused by Tenant by its use of the Demised Premises, at its sole cost and expense.

Section 30.02. (a) Tenant shall comply with all state and federal environmental laws, including the Spill Compensation and Control Act ("SCCA") (N.J.S.A. 58:10-23.11 et seq.) and Industrial Site Recovery Act ("ISRA") (N.J.S.A. 13:1K-6 et seq.) as the same may have been or may hereafter be amended (collectively, the "Environmental Statutes") as the same may relate to Tenant's use and occupancy or manner of use and occupancy of the Demised Premises or any act or failure to act of Tenant. Tenant shall supply Landlord on demand with any information Landlord may require in order to enable Landlord to comply with the Environmental Statutes, including, without limitation, ISRA, whether upon the transfer of title or closing of operations at the Demised Premises, or for any reason whatsoever.

Section 30.02. (b) Tenant shall not use the Demised Premises for the purpose of refining, producing, storing, handling, transferring, processing or transporting said "Hazardous Substances", as such term is defined in N.J.S.A. 5B:10-23.11b(k) of the New Jersey Spill Compensation and Control Act (N.J.S.A. 58:10-23.11 et seq.).

Section 30.02. (c) Tenant shall not use the Demised Premises to generate, manufacture, refine, transport, treat, store, handle or dispose of "Hazardous Substances", or "hazardous Wastes", as such terms are defined in N.J.A.C. 7:1-3.3.

Section 30.02. (d) Tenant shall not cause or permit to exist, as a result of an intentional or unintentional action or omission on its part, a releasing, spilling, leaking, pumping, emitting, pouring, emptying or dumping of a "Hazardous Substance", as such term is defined in N.J.S.A. 58:10-23.11b(k) into waters of the State of New Jersey or onto the lands from which it might flow or drain into said waters, or into waters outside the jurisdiction of the State of

New Jersey where damage may result to the lands, waters, fish, shellfish, wildfire, biota, air and other resources owned, managed, held in trust or otherwise controlled by the State of New Jersey.

Section 30.02. (e) Tenant shall not use the Demised Premises as a "Major Facility", as such term is defined in N.J.S.A. 58-10-23.1b(1).

Section 30.02. (f) Tenant shall not install nor permit to be installed in the Demised Premises friable asbestos or any

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substance containing asbestos and deemed hazardous by federal or state regulations respecting such material.

Section 30.03. Tenant represents that Tenant has not received a summons, citation, directive, letter or other communication, written or oral, from the New Jersey Department of Environmental Protection concerning any intentional or unintentional action or omission on Tenant's part resulting in the releasing, spilling, leaking, pumping, pouring, emitting, emptying or dumping of "Hazardous Substances", as such term is defined in N.J.S.A. 58:10-23.11b(k), into the waters or onto the lands of the State of New Jersey, or into the waters outside the jurisdiction of the State of New Jersey resulting in damage to the lands, waters, fish, shellfish, wildlife, biota, air and other resources owned, managed, held in trust or otherwise controlled by the State of New Jersey.

Section 30.04. (a) In the event that Tenant does not expeditiously proceed with any compliance required by any State or Federal authority under the Environmental Statutes, Landlord may elect to undertake such compliance in order to protect its interest in the Demised Premises. Any monies expended by Landlord in efforts to comply with any environmental statute (including but not limited to: the costs of hiring consultants, undertaking sampling and testing, performing any cleanup necessary or useful in the compliance process and attorney's fees), together with interest at the maximum rate permitted by law, will be added to and payable with the next payment of annual minimum rental due from Tenant, or will be payable on demand of Landlord.

Section 30.04. (b) Tenant will provide Landlord with all information as to the use or manner of use of the Demised Premises by Tenant, and an environmental audit of the Demised Premises which is designed to describe any materials on the Demised Premises which would require a filing and/or any disclosure under the Environmental Statutes in the event of any transfer or closure, or which would require remedial action under any other Environmental Statutes.

Section 30.04. (c) In the event that Tenant receives notice from the Department of Environmental Protection or any other governmental authority or bureau having or asserting jurisdiction thereover under SCCA of a discharge on or about the Demised Premises, or any other notice of violation of the Environmental Statutes or any alleged or claimed violation thereof, Tenant will immediately send a copy of such notice to Landlord and Tenant will promptly proceed to remedy the condition described in the notice. Tenant shall take all action necessary to ensure that the SCCA administrator does not spend Spill Fund monies to clean up the site. In the event that the SCCA administrator should spend money cleaning up property owned by Landlord due to Tenant's use or occupancy or manner of use or occupancy of the Demised Premises or the act or failure to act of Tenant, and/or a lien is imposed on the Demised Premises or any portion of the parcel of which it forms a part of any property of Landlord, Landlord may take such actions as it deems necessary to remove such lien, including satisfaction thereof, or may require it to be bonded by Tenant, and Tenant agrees to defend, indemnify and hold Landlord free and harmless from and against all loss, costs, damage and expense (including attorney's fees and costs) Landlord may sustain by reason of the assertion against Landlord by any party of any claim in connection therewith. Landlord may demand such security, in amounts and types which it deems appropriate in its sole discretion, for the purpose of protecting its property from any such lien or to guarantee cleanup.

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#### ARTICLE 31. METHOD OF CALCULATION

Section 31.01. Landlord shall have the right at any time during the Term or any extension term hereof, and Tenant hereby consents thereto, to subdivide Lot No. 3/1 into such additional lot or lots as Landlord may in its sole discretion

elect, provided that the whole of the Building shall remain entirely within one such subdivision and/or to expand Lot No. 3/1. Notwithstanding anything contained in this Lease to the contrary, in the event of any such subdivision and/or expansion of Lot No. 3/1 by Landlord then, at Landlord's option, (i) references in this Lease to Lot No. 3/1 may be deemed to be to the original (pre-subdivision or pre-expansion, as the case may be) Lot No. 3/1 or any portion(s) thereof of which the Demised Premises forms a part, and (ii) in calculating Tenant's proportionate share(s), Landlord may use as the denominator of the fraction(s) representing Tenant's proportionate share(s) the building(s) or portions thereof within said original Lot No. 3/1 or any portion(s) thereof of which the Demised Premises forms a part. In the vent of such subdivision and/or expansion, Tenant agrees to execute an agreement in recordable form setting forth the description of Lot No. 3/1 as so subdivided or expanded, as the case may be, and as renamed and/or renumbered.

ARTICLE 32. THERE IS NO ARTICLE 32 IN THIS LEASE.

ARTICLE 33. THERE IS NO ARTICLE 33 IN THIS LEASE.

#### ARTICLE 34. RELATIONSHIP OF PARTIES

Section 34.01. Nothing herein contained shall be deemed or construed by the parties hereto, nor by any third party, as constituting the Landlord a partner of Tenant in the conduct of Tenant's business, or as creating the relationship of principal and agent or joint venturers between the parties hereto, it being the intention of the parties hereto that the relationship between them is and shall at all times be and remain that of Landlord and Tenant only. Tenant agrees upon the demand of Landlord to deliver to Landlord and any mortgagee of Landlord the most recently available financial statements of Tenant and any guarantor of this Lease, certified to by a certified public accountant, and updated to the extent reasonably requested by Landlord or any such mortgagee.

#### ARTICLE 35. CAPTIONS

Section 35.01. The Article captions contained herein are for convenience only and do not define, limit, or construe the contents of such Articles and are in no way to be construed as a part of this Lease.

#### ARTICLE 36. DEFINITIONS

Section 36.01. words of any gender used in this Lease shall be held to include any other gender, and words in the singular number shall be held to include the plural, when the sense requires.

Section 36.02. If any provisions of this Lease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Lease,

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or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

#### ARTICLE 37. ENTIRE AGREEMENT

37.01. This instrument of Lease contains the entire and only agreement between the parties concerning the Demised Premises. No prior oral or written statements or representation, if any, of any party hereto or any representative of a party hereto, not contained in this instrument, shall have any force or effect. This Lease shall not be modified in any way, except by a writing executed by Landlord and Tenant. No oral agreement or representations shall be deemed to constitute a lease other than this agreement. This agreement shall not be binding until it shall have been executed and delivered by Landlord and Tenant. The submission of this Lease to Tenant prior to its execution by Landlord shall not be an offer to lease.

#### ARTICLE 38. SUCCESSORS IN INTEREST

Section 38.01. All provisions herein contained shall bind and inure to the benefit of the respective parties hereto, their heirs, personal representatives, successors and assigns, as the case may be. In the event Landlord or any successor-lessor (owner) of the Demised Premises shall convey or otherwise dispose of the Demised Premises and/or the Center and/or the Tax Lot of which the Demised Premises forms a part, all liabilities and obligations of Landlord or such successor-lessor (owner), as Landlord under this Lease shall terminate upon such conveyance or disposal.

Section 38.02. If Landlord, or any successor in interest to Landlord, shall be an individual, joint venturer, executor, estate, personal representative, conservator, tenancy-in-common, trustee, trust, limited liability company, limited liability partnership, partnership, general or limited, firm or corporation, there shall be no personal liability on the part of such individual or on the part of any members of such joint venture, tenancy-in-common, trustee, trust, company, partnership, firm or corporation, its officers, directors, managers or stockholders, or on the part of such joint venture, estate, tenancy-in-common, trustee, trust, company, partnership, firm or corporation as to any of the provisions, covenants or conditions of this Lease. Tenant hereby acknowledges that it shall look solely to the real property interest of Landlord in Lot No. 3/1 (or, in the event of a subdivision of said Lot, such subdivided portion thereof which includes the Demised Premises) for the satisfaction or assertion of any claims, rights and remedies of Tenant against Landlord, in the event of breach by Landlord of any of the terms, provisions, covenants or conditions of this Lease.

#### ARTICLE 39. EXTENSION OPTION

Section 39.01. (a) Renewal. Provided that Tenant is not in default hereunder, Tenant shall have the option (the "Renewal Option") to extend the term of this Lease for One (1) additional period of Five (5) years (the "Renewal Term"), by giving Landlord notice thereof at least nine (9) months notice, prior to the date of expiration of the term of this Lease. If Tenant shall exercise

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the Renewal Option, then this Lease shall be extended for the Renewal Term upon all of the terms, covenants, and conditions contained in this Lease, except that, during the Renewal Term, the annual minimum rental for said term shall be 100% of the annual market value (the "Market Value Rent") of the Demised Premises (assuming Tenant has removed all of its personal property and such other property as this Lease permits Tenant to remove) on the date that Tenant exercises the Renewal Option) the "Exercise Date"), determined as provided in Section (b) below).

Section 39.01. (b) Arbitration. The term "Market Value" shall mean the annual minimum rental that a willing Tenant would pay and a willing Landlord would accept in an arms-length lease of the Demised Premises as of the Exercise Date, assuming the same terms and conditions set forth in this Lease, and the Demised Premises being in the condition described in (a) above. If Landlord and Tenant shall fail to agree upon the Market Value Rent within (60) days after the Exercise Date, then Landlord and Tenant each shall give notice (the "Determination Notice") to the other setting forth their respective determinations of the Market Value Rent, and, subject to the provisions of Section (c) below, either party may apply to the American Arbitration Association or any successor thereto for the designation of an arbitrator satisfactory to both parties to render a final determination of the Market Value Rent. If landlord and Tenant cannot agree upon an arbitrator, the parties shall Jointly apply to the assignment judge of Monmouth County to select an arbitrator. The arbitrator shall be a real estate appraiser, consultant, or broker who shall have at least (15) year continuous experience in the business of appraising or office leasing. The arbitrator shall conduct such hearings and investigations as the arbitrator shall deem appropriate and shall, within thirty (30) days after having been appointed, choose one of the determinations set forth in either Landlord's or Tenant's Determination Notice, and that choice by the arbitrator shall be binding upon Landlord and Tenant. Each party shall pay its own counsel fees and expenses, if any, in connection with any arbitration under this Section (b), and the parties shall share equally all other expenses and fees of any such arbitration. The determination rendered in accordance with the provisions of this Section (b) shall be final and binding in fixing the Market Value rent. The arbitrator shall not have power to add to, modify or change any of the provisions of this Lease.

Section 39.01. (c) Arbitration canceled. In the event that the determination of the Market Value Rent set forth in the Landlord's and Tenant's Determination notices shall differ by less than three (3%) percent per rentable square foot per annum for the applicable Renewal Term, then the Market Value Rent shall not be determined by arbitration, but shall instead be set by taking the average of the determination set forth in Landlord's and Tenant's Determination Notices. Only if the determinations set forth in Landlord's and Tenant's Determination Notices shall differ by more than three (3%) percent per rentable square foot per annum for the applicable Renewal Term shall the actual determination of Market Value Rent be made by an arbitrator as set forth in Section (b) above.

Section 39.01. (d) Late determination. If for any reason the Market Value Rent shall not have been determined prior to the commencement of the Renewal

Term, then, until the Market Value Rent , and, accordingly, the annual minimum rental, shall have been finally determined, the annual minimum rental shall remain the same as payable during the last year of the expiring term of the Lease. Upon final determination of the Market Value Rent, an appropriate adjustment to the annual minimum rental shall

be made reflecting such final determination, and Tenant, shall promptly pay to Landlord any deficiency, in the payment of annual minimum rental from the commencement of the Renewal Term to the date of such final determination.

Section 39.01. (e) Minimum Renewal Term Rental. Notwithstanding anything contained in this Article to the contrary, in no event shall the annual minimum rental payable by Tenant during the extension term be less than TWO HUNDRED TWENTY FIVE THOUSAND AND 00/100 (\$225,000.00) DOLLARS per annum

ARTICLE 40. APPROVALS

Section 40.01. Landlord will promptly file all necessary applications and information and proceed with due diligence to obtain all governmental permits, consents and approvals (including, without limitation, a building permit) enabling Landlord to perform the Landlord's Work (herein referred to as the "Approvals"). The Approvals shall be deemed to have been issued on the date when all such permits, consents and approvals are final and unappealable (such date referred to herein as the "Approvals Date"). Tenant shall cooperate with Landlord's efforts to obtain Approvals. If Landlord fails to obtain such Approvals (or any of same) on or before one hundred eighty (180) days from the date hereof, Landlord and Tenant shall have the right to terminate this Lease as herein provided at any time prior to the issuance of the Approvals, provided, however, that the non-termination party may stay the other party's termination of this Lease for a period of sixty (60) days (hereinafter called the "Approvals Extension Period") if the non-terminating party shall in good faith believe that the non-terminating party shall be able to obtain the Approvals within the Approvals Extension Period, whereupon the non-terminating party shall diligently pursue obtaining the Approvals, failing which the termination of this Lease by the terminating party shall automatically take effect on the sixtieth (60th) day of the Approvals Extension Period. If this Lease is terminated in the manner set forth in this Section 40.01, the parties shall be released from any and all further rights and/or obligations hereunder accruing after the effective date of such termination.

WITNESS:

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ROBERT C. BAKER, INDIVIDUALLY, AS  
TRUSTEE UNDER TRUST AGREEMENT DATED  
MARCH 15, 1984 FOR THE BENEFIT OF  
ASHLEY S. BAKER AND AS MANAGING  
GENERAL PARTNER OF BAKER 1985  
FAMILY PARTNERSHIP

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GERALD H. BAKER

-----

MARTIN S. BERGER, TRUSTEE UNDER  
TRUSTEE AGREEMENT DATED MARCH 15  
1984 FOR THE BENEFIT OF ASHLEY S.  
BAKER

BY

-----

JOHN C. ORRICO ATTORNEY-IN -FACT

-----  
ALAN M. OSHINS, AS TRUSTEE UNDER  
TRUST ESTABLISHED UNDER ARTICLE IV  
OF THE LAST WILL AND TESTAMENT OF  
HARVEY B. OSHINS

-----  
KAREN SPIEGEL  
-----

ATTEST: PROGRAMMER'S PARADISE, INC.,  
a Delaware corporation

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By: \_\_\_\_\_  
Name: Roger Paradis  
Title: President

STATE OF NEW YORK)

SS.:

COUNTY OF WESTCHESTER)

BE IT REMEMBERED, that on this \_\_\_\_ day of May, 1997, before me, the subscriber personally appeared ROBERT C. BAKER, INDIVIDUALLY, AS TRUSTEE UNDER TRUST AGREEMENT DATED MARCH 15, 1984 FOR THE BENEFIT OF ASHLEY S. BAKER AND AS MANAGING GENERAL PARTNER OF BAKER 1985 FAMILY PARTNERSHIP, and JOHN G. ORRICO, BY HIS ATTORNEY-IN-FACT, ROBERT C. BAKER, who I am satisfied are the persons named in and who signed the within instrument, and, thereupon they acknowledged that they signed, sealed and delivered the same as their respective act and deed, for the uses and purposes therein expressed.

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NOTARY PUBLIC

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STATE OF )

SS.:

COUNTY OF )

BE IT REMEMBERED, that on this \_\_\_\_\_ day of \_\_\_\_, 1997, before me, the subscriber personally appeared GERALD H. BAKER, who I am satisfied is the person named in and who signed the within instrument, and, thereupon he acknowledged that he signed, sealed and delivered the same as his act and deed, for the uses and purposes therein expressed.

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NOTARY PUBLIC

STATE OF )

SS.:

COUNTY OF )

BE IT REMEMBERED, that on this \_\_\_\_ day of \_\_\_\_\_, 1997, before me, the subscriber personally appeared MARTIN S. BERGER, AS TRUSTEE UNDER TRUST AGREEMENT DATED MARCH 15, 1984 FOR THE BENEFIT OF ASHLEY S. BAKER, who I am satisfied is the person named in and who signed the within instrument, and, thereupon he acknowledged that he signed, sealed and delivered the same as his act and deed, for the uses and purposes therein expressed.

NOTARY PUBLIC

STATE OF )

SS.:

COUNTY OF )

BE IT REMEMBERED, that on this \_\_\_\_ day of \_\_\_\_\_, 1997, before me, the subscriber personally appeared ALAN M. OSHINS, AS TRUSTEE UNDER TRUST ESTABLISHED UNDER ARTICLE IV OF THE LAST WILL AND TESTAMENT OF HARVEY B. OSHINS, who I am satisfied is the person named in and who signed the within instrument, and, thereupon he acknowledged that he signed, sealed and delivered the same as his act and deed, for the uses and purposes therein expressed.

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NOTARY PUBLIC

STATE OF )

SS.:

COUNTY OF )

BE IT REMEMBERED, that on this \_\_\_\_ day of \_\_\_\_\_, 1997, before me, the subscriber personally appeared KAREN SPIEGEL, who I am satisfied is the person named in and who signed, sealed and delivered the same as her act and deed, for the uses and purposes therein expressed.

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NOTARY PUBLIC

STATE OF NEW )

SS.:

COUNTY OF )

BE IT REMEMBERED, that on the \_\_\_\_\_ day of \_\_\_\_\_, 1997, before me, the subscriber, a notary public of the State of \_\_\_\_\_, personally appeared Roger Paradis, President of PROGRAMMER'S PARADISE, INC., who, I am satisfied, is the person who signed the within instrument; and I having first made known to him the contents thereof, he thereupon acknowledged that he signed, sealed with the corporate seal and delivered the said instrument as such officer aforesaid, and that the within instrument is the voluntary act and deed of said corporation.

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NOTARY PUBLIC

EXHIBIT B  
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WORK LETTER TO BE ATTACHED TO LEASE  
TO PROGRAMMERS PARADISE, INC.  
SHREWSBURY BUSINESS CENTER  
SHREWSBURY, NEW JERSEY

1. SIZE

Overall size of Shrewsbury Avenue is approximately 18,000 square feet, within which approximately 18,000 square feet shall be completed as office area. All of the foregoing shall be constructed in accordance with the following specifications and plans to be developed therefrom by Landlord's Architect to meet the design criteria specified below. Any work not expressly specified

herein and any work necessary to comply with codes attributable to Tenant's use shall be furnished and installed at the sole cost and expense of Tenant.

## 2. SPACE ALLOCATION

All office areas shall have suspended 9'0" high ceilings, painted walls, recessed lighting, carpeted floors or resilient tile at Tenant's option.

## 3. BUILDING SHELL

A. Type of Construction - Structural steel frame, bar joists, metal decking, precast concrete.

B. Exterior - Front and side elevations are precast concrete, rear elevation is block (which may be smooth face), which block is waterproof and insulated.

C. Architectural Metal - Sections of the front and side walls may be covered with fluted metal panels above window line.

D. Front Entrances and Sidelites - Doors and frames shall be made up of aluminum tubes and frames. One double glass front entrance with two (2) sidelites. Two (2) side entrances with single glass doors and single sidelites.

E. Canopy - Canopies of similar design and look to the existing buildings on site will cover all entrances. The finish will conform to that the architectural design of the Building.

F. Windows - Fixed lites are solar bronze set into an aluminum frame. Window locations as per Exhibit B-1.

G. Roof - Single ply EPDM membrane or three-ply modified asphalt, insulated with four ply built-up smooth fiberglass. Insulation mechanically fastened to ribbed metal decking.

## 4. COMPONENT DESCRIPTION & SPECIFICATIONS FOR INTERIOR

A. Floor Slab - All concrete floor slabs are approximately 4" in thickness and include wire mesh, 3,000 p.s.i. concrete.

B. Bay Size - All bays measure 30 feet in width and 30 feet in depth (front to rear). Area of Bay - 900 sq. Ft.

## 5. OFFICE AREA

Office space shall be constructed in accordance with Exhibit B-1 and the following design specifications:

Office and Conference Room partitions to be insulated.

A. Interior Partitions - All interior partitions of finished area shall be constructed of 1/2" gypsum board, taped and spackled on each side of 3-5/8" metal studs, at Landlord's option 16" or 24" on center, to underside of ceiling and covered with two coats of paint (Tenant's choice of color from Landlord's standard selections). Landlord shall provide drywall finish to restrooms and inside of exterior walls. As shown on attached floor plan the partitioning will go to the deck in the following offices: president, executive vice president, vice president-finance and main conference room. Partitioning to penetrate ceiling at least one (1') foot on perimeter partition of training room, printer room, computer room and bathrooms. Paint to be Conlux or equal.

B. Doors and Frames - Within the office areas, 3'-0"x7'0" stain grade solid core wood doors with hollow metal frames shall be provided on the basis of a Building Standard of one door per 40 lineal feet of interior partitioning. Doors to be sealed and frames to be painted. Landlord to provide restroom and utility room doors. Side lites provided at the quantity of 1 per 1500 square feet rentable. Storage area door to be extra height (double doors) metal. Paint to be Conlux or equal.

C. Hardware - All interior doors provided with standard weight lever hardware with locks. Door closer provided on entrance door. Finish shall be Schlage or equal. Door closets and crash bars as required by code, including lavatories, ingress/egress doors, doors into storage room and training room. All locks will have one (1) master and three (3) submaster keys.

D. Ceilings - Suspended acoustical tile ceilings, 2'x4' lay-in, illusion #3575 by USG (second look tile) or equal to a height of 9'-0" above finished



floor.

Offices, Conference Rooms, computer room, printer room, training room and lunch room to be insulated for sound.

E. Floor-Coverings - Office area shall be carpeted with 30 oz. commercial grade from Landlord Standard Selection. Tenant's choice of color from Landlord's standard selections.

Vinyl tile in lunchroom/kitchenette, anti-static in commuter room, print room and tech support lab. Tenant's choice from Landlord's standard selection (congoleum or equal).

Tile room floors to be covered with ceramic tile, includes base, and ceramic tile to 4'0" above finish floor.

F. Vinyl Base - Four inch high building standard vinyl base shall be provided along both sides of all partitions and column enclosures. Tenant's choice from Landlord's standard selection (Nafco or equal).

6. PLUMBING (per 6,000 square feet of floor area)

Landlord to provide three (3) men's lavatories inclusive of a total of four (4) water closets, three urinals and four wall hung sinks, and three (3) ladies lavatories inclusive of a total of four (4) water closets and four (4) wall hung sinks. Provisions for handicapped shall be included. Sanitary system connected to

Borough of Shrewsbury sewer system. All toilets and urinals shall be flushometer type fixtures.

7. ELECTRICAL

A. BASIC SERVICE

1. Electrical conductors and distribution equipment will be provided to deliver 277 volts for fluorescent lighting, 480 volts for H.V.A.C. equipment and 120 volts for general usage.

2. Service -300 amp.

3. Circuit breaker panel will be provided for Tenant.

4. Tenant to be metered independently.

B. LIGHTING

1. Office area to be provided with 2'x4' recessed lighting fixture. One fixture will be provided for every 90 square feet of office floor area. All fixtures to be prismatic lense type except in conference room and private offices which shall receive parabolic lighting.

2. Storage room to be provided with six (6) eight (8') foot fluorescent strip fixtures.

C. SWITCHES AND OUTLETS

1. One switch per room.

Open landscape area to have four (4) switches.

All offices with multiple entrances to have two (2) switches.

Outlets - 3 Offices:

3 duplex  
1 data/voice

Outlets - 9 Offices:

4 duplex  
1 data/voice

Floor Outlets:

1 per 1500 square feet

Perimeter Walls:

1 duplex per 20 liner feet

Miscellaneous:

18 dedicated 20 amp outlets to be located as directed by Tenant

4 GFI duplex located in lunchroom/kitchenette

4 duplex to be located as directed by Tenant

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8. OFFICE AIR CONDITIONING

Office areas shall be air conditioned to provide 72 degrees F. when the outside temperature is 91 degrees F., based on typical standard office use. (Maximum average design is one ton of HVAC for each 350 square feet of usable space). HVAC system to have a minimum of six (6) zones for cooling and heating. Printer and computer rooms to be serviced by independent unit for heating and cooling.

9. OFFICE HEAT

Forced hot air to provide 70 degrees F. when outside temperature is 0 degrees F., based on typical standard office use. Minimum of ten (10%) percent recirculation of fresh air.

10. SPRINKLERS

The entire building will be sprinklered for ordinary hazard Group II type usage. Should there be a change in usage and/or grouping as a result of Tenant's business requirements and layout, required changes shall be paid for by Tenant. Landlord will provide a maximum of one (1) sprinkler head per 225 square feet of floor space in the office area or per code whichever is greater.

11. LANDSCAPING

Landscaping provided throughout the site includes trees, shrubs, lawn and ground cover on a topsoil base. All landscaped areas are irrigated and controlled by zone valves. Landlord to screen loading area to Osteotech premises.

12. SIGNS

Tenant shall provide logo design and other signage requirements to Landlord. Landlord shall have the right to approve the logo and other requirements. Landlord shall provide aluminum sign and install same in accordance with the standard for Shrewsbury Business Center. The furnishing and installation of plastic letters/logo shall be at the Tenant's expense. Tenant shall have signage on main entry sign equal to 1/3 of entire sign face. All signage subject to applicable zoning ordinances.

13. WINDOW TREATMENT & CABINETS

A. All windows and sidelites shall have window treatments furnished and installed at Landlord's sole cost and expense. Tenant's choice of color from Landlord's Standard Selection with minimum quality equal to window treatment in tenants current offices at 1163 Shrewsbury Avenue.

B. Landlord to furnish and install fourteen (14) linear feet of base cabinets (inclusive of two (2) double sinks) and ten (10) linear feet of wall hung cabinets. Tenant's choice from Landlord's Standard Selection.

14. STORAGE AREA AND LOADING DOCKS

A. 1,000 sq. ft. of full height storage space at rear of building with loading dock. Concrete floor sealed with Conlux or equivalent.

B. Two (2) additional planned loading docks (for future) at rear of building with window installed instead of overhead door at

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location shown on Exhibit B-1. One (1) additional dock (future) to have concrete pad for trailer delivery.

C. Two metal personnel doors to be installed as per Exhibit B-1.

15. MAIN AND SIDE ENTRANCE VESTIBULES

A. One double glass door main entrance interior vestibule.

B. Two single glass door interior side entrance vestibules.

16. JANITOR CLOSET

One (1) janitors closet with slop sink next to lavatories or kitchen. Location to be determined by final floor plan.

17. CLOSETS

Install 40' of stainless closet rod and solid core hinged or sliding doors at locations determined by final floor plan.

18. MISCELLANEOUS WORK

A. All "extras" furnished by Landlord, at Tenant's cost, as provided herein or hereafter agreed to, shall be computed at Landlord's cost, plus 10 percent overhead, plus 10 percent profit.

B. Credits to Tenant based upon deletions and reductions below Building Standard set forth above, shall be computed based upon Landlord's unit cost set forth above, without factor of overhead and profit.

C. All prices, if any, set forth in this Work Letter are predicated upon quotations now in the hands of Landlord. Such quotations, by their terms, expire at various intervals and accordingly these prices are subject to variation based upon market conditions following the expiration of such quotations.

D. All prices are subject to inclusion of applicable taxes, but Landlord's overhead and profit shall be computed without regard to such taxes.

E. Landlord shall furnish Tenant with a statement(s) computing the net extras or credits due to Landlord or Tenant, as the case may be. Any amount due to Landlord shall be due and payable in full simultaneously with the delivery by Tenant to Landlord of the authorization for such work. Any credit due Tenant shall give rise to a reduction in the first installments of minimum rent and additional rent until such credit has been exhausted.

F. With execution of this Lease, Tenant shall furnish Landlord with design criteria and specifications necessary to enable Landlord to comply with its obligations above. All authorizations, deletions and implementations of the foregoing Work Letter shall be in writing and confirmed by authorized representatives of Landlord and Tenant.

G. If there shall be any conflict between the provisions of this Work Letter and the final approved Plans, the final approved Plans shall govern and control.

H. Landlord reserves the right to substitute for any materials and equipment specified herein, materials and equipment of substantially equal quality.

I. Unless specifically stated in this Exhibit B or this Lease to the contrary, and notwithstanding anything contained on any plans or drawings (including Exhibit B-1 annexed hereto, if any) Tenant, and not Landlord, shall be responsible for furnishing and installing at its sole cost and expense any and all furniture, Tenant fixtures, appliances, shelving, cabinetry, phone systems, computer wiring, landscaped furniture, modular partitioning, work stations, computers and the like for the Demised Premises.



Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-72249) pertaining to the Programmer's Paradise, Inc. 1986 Stock Option Plan, the Programmer's Paradise, Inc. 1995 Stock Plan and the Programmer's Paradise, Inc. 1995 Non-Employee Director Plan of our report dated January 27, 1999, with respect to the consolidated financial statements and schedule of Programmer's Paradise, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1998.

/s/ Ernst & Young LLP

MetroPark, New Jersey  
March 26, 1999