

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

FORM 10-Q

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

For the quarterly period ended March 31, 1999

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

For the transition period from _____ to _____

Commission File No. 33-92810

Programmer's Paradise, Inc.

(Name of issuer in its charter)

Delaware

13-3136104

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

1157 Shrewsbury Avenue, Shrewsbury, New Jersey

07702

(Address of principal executive offices)

(Zip Code)

Issuer's Telephone Number (732) 389-8950

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

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

There were 5,148,186 outstanding shares of Common Stock, par value \$.01 per share, as of April 30, 1999.

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PROGRAMMER'S PARADISE, INC.

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PART I - FINANCIAL INFORMATION

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

ASSETS

<TABLE>
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	March 31, 1999 ----- (Unaudited) <C>	December 31, 1998 ----- (Audited) <C>
<S>		
Current Assets		
Cash and cash equivalents	\$ 12,651	\$ 21,167
Accounts receivable	41,952	53,002
Inventory	4,813	5,335
Prepaid expenses and other current assets	4,163	2,925
Deferred income taxes	2,757	1,988
	-----	-----
Total current assets	66,336	84,417
Equipment and leasehold improvements	2,376	2,317
Goodwill	15,310	15,595
Other assets	1,247	1,286
Deferred income taxes	1,060	1,262
	-----	-----
	\$ 86,329	\$ 104,877
	=====	=====

</TABLE>

LIABILITIES AND STOCKHOLDERS' EQUITY

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	<C>	<C>
<S>		
Current Liabilities		
Notes payable to banks	\$ 602	\$ 674
Accounts payable and accrued expenses	40,537	58,064
Other current liabilities	5,394	7,993
	-----	-----
Total current liabilities	46,533	66,731
Other liabilities	0	144
Notes payable - Long-term	1,468	1,761
Stockholders' equity		
Common stock	52	50
Additional paid-in capital	35,675	33,952
Retained earnings	4,173	3,186
Treasury stock	(140)	(219)
Cumulative foreign currency translation adjustment	(1,432)	(728)
	-----	-----
Total stockholders' equity	38,328	36,241
	-----	-----
	\$ 86,329	\$ 104,877
	=====	=====

</TABLE>

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

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PROGRAMMER'S PARADISE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

(In thousands, except per share data)

<TABLE>
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	Three months ended March 31,	
	1999	1998
	----	----
<S>	<C>	<C>
Net sales	\$ 57,368	\$ 53,193
Cost of sales	50,606	46,679
Gross profit	6,762	6,514
Selling, general and administrative expenses	5,158	4,930
Amortization expense	285	245
Income from operations	1,319	1,339
Interest income, net	64	78
Unrealized foreign exchange loss	208	(54)
Income before income taxes	1,591	1,363
Provision for taxes	604	603
Net income	\$ 987	\$ 760
Net income per common share-Basic	\$.20	\$.16
Net income per common share-Diluted	\$.18	\$.14
Weighted average common shares outstanding-Basic	4,991	4,790
Weighted average common shares outstanding-Diluted	5,487	5,293
Reconciliation of Net Income to Comprehensive Income:		
Net Income	\$ 987	\$ 760
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(437)	(86)
Comprehensive Income	\$ 550	\$ 674

</TABLE>

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

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

(In thousands)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1999	1998
	-----	-----
<S>	<C>	<C>
Cash provided by (used for)		
Operations:		
Net income	\$ 987	\$ 760
Adjustments for non cash charges	598	416
Changes in assets and liabilities	(11,229)	(5,492)
	-----	-----
Net cash used for operations	(9,644)	(4,316)
	-----	-----
Investing:		
Capital expenditures	(307)	(392)
	-----	-----
Net cash used for investing	(307)	(392)
	-----	-----
Financing:		
Net proceeds from issuance of common stock/ increase in additional paid in capital	1,723	82
Purchase of treasury stock	79	0
Repayments under lines of credit	(366)	(386)
	-----	-----
Net cash provided by (used for) financing activities	1,436	(304)
	-----	-----
Increase (decrease) in cash	\$ (8,515)	\$ (5,012)

</TABLE>

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

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PROGRAMMER'S PARADISE, INC.
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
March 31, 1999

1. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 1999, are not necessarily indicative of the results that may be expected for the year ended December 31, 1999. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year-ended December 31, 1998.
2. Assets and liabilities of the foreign subsidiaries, all of which are located in Europe, have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the year. Resulting cumulative translation adjustments have been recorded as a separate component of stockholders' equity.
3. In 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.

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

OVERVIEW

Programmer's Paradise, Inc. is a recognized international marketer of software targeting the software development and Information Technology professionals within enterprise organizations. The Company operates principally, through five distribution channels in 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. Website addresses are www.pparadise.com and www.supershops.com. Information contained on our web sites is not, and should not be deemed to be, a part of this report.

The Company's strategic focus is to expand its catalog and Internet activities while solidifying its position as the predominant direct sales company for corporate desktop application software. A key element of that strategy is to build upon its distinctive catalogs - the established Programmer's Paradise catalog, directed at independent professional programmers, and its 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.

International expansion has been an integral part of the Company's strategy. 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.

RESULTS OF OPERATIONS

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

<TABLE>
<CAPTION>

Three months ended
March 31,

	1999 ----	1998 ----
<S>	<C>	<C>
Net Sales	100.0%	100.0%
Cost of Sales	88.2	87.8
	-----	-----
Gross Profit	11.8	12.2
Selling, general and administrative expenses	9.0	9.3
Amortization expense	0.5	0.4
	-----	-----
Income from operations	2.3	2.5
Interest income (expense), net	0.1	0.1
Unrealized foreign exchange gain (loss)	0.4	(0.1)
	-----	-----
Income before income taxes	2.8	2.5
Income taxes	(1.1)	(1.1)
	-----	-----
Net income	1.7%	1.4%
	-----	-----

</TABLE>

NET SALES

Net sales of the Company represents the gross consolidated revenue of the Company less returns. Although net sales consist primarily of sales of software, revenue from marketing services and advertising is also included within net sales. Net sales for the quarter ended March 31, 1999 increased by \$4.2 million or 8%, to \$57.4 million, over the same period in 1998. This increase primarily reflects the growth of the Company's Direct Sales channel and a considerable increase in the Internet channel, partially offset by reduced catalog revenues.

Consolidated Internet sales revenues increased by 280% or \$1.5 million for the three months ended March 31, 1999 compared to the same period in 1998. This increase was primarily due to the newly enhanced and expanded websites, the creation of on-line specialty stores and a dramatic expansion in both product offerings and product content. Specifically, the number of SKUs offered on the web sites was increased from approximately 3,000 to more than 40,000. Direct sales revenues increased by 9% or \$3.1 million for the three months ended March 31, 1999 compared to the same period in 1998. Sales were particularly strong in France, The Netherlands and the United States. Revenue growth in the US and France represents increases in market share while the increase in The Netherlands is attributable to execution of the relationship selling approach with existing customers. Revenues from the German operations were less than anticipated as several large licensing contracts were deferred to the second quarter. Consolidated Catalog and Telemarketing revenues decreased 6% or \$0.9 million for the three months ended March 31, 1999 primarily due to the shift in business from the traditional catalogs to the Internet channel. Revenues for the Distribution channel increased 12% or \$0.5 million for the three months ended March 31, 1999 primarily due to new distribution agreements in the United States.

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Geographically, approximately 67% and 69% of the revenues were derived from the European operations for the three months ended March 31, 1999 and 1998, respectively.

GROSS PROFIT

Gross profit represents the difference between net sales and costs of sales. Cost of sales is composed primarily of amounts paid by the Company to publishers and vendors plus catalog printing and mailing costs. Publisher and vendor rebates are credited against cost of sales. For the three-month period ended March 31, 1999, gross profit as a percentage of sales decreased from 12.2% to 11.8% over the same period in 1998, 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, primarily Microsoft Select licensing sales. Gross profit in absolute dollars for the three-month period ended March 31, 1999 increased by \$248,000 over the previous year, which reflects the strength of the direct sales channel in the quarter.

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. Margins within the direct sales channel are also subject to mix variations as Microsoft Select License sales typically produce lower gross margin results. The emergence of the Internet as a viable commerce channel has caused the Company to experience competitive margin pressures. The Company anticipates that this margin pressure will continue for the next few quarters.

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 the provision for doubtful accounts. Depreciation and amortization consists primarily of equipment depreciation and leasehold improvements.

SG&A expenses as a percentage of revenues decreased by 0.3% for the three months ended March 31, 1999 compared to the same period in 1998. SG&A expenses in absolute dollars for the three-month period ended March 31, 1999 increased by \$228,000 when compared to the same period in 1998. This increase mainly reflects the additional infrastructure in the form of personnel related costs as the Company moves into the e-commerce arena and expands its European operations.

Geographically, the North America operation of the Company accounted for approximately 37% and 41% of total SG&A expenditure for the three months ended March 31, 1999 and 1998, respectively, while the European operation accounted for approximately 63% and 59% for the three months ended March 31, 1999 and 1998, respectively.

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AMORTIZATION EXPENSE

Amortization expense includes the systematic write-off of goodwill. Amortization expense for the three months ended March 31, 1999 increased by \$40,000 as compared to the same period in 1998. This increase reflects the amortization of the excess of the purchase price over the fair value of the net assets acquired in connection with the acquisition of Logicsoft. 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 at December 31, 1998, which is being amortized over a fifteen-year period.

UNREALIZED FOREIGN EXCHANGE GAIN (LOSS)

Unrealized foreign exchange gain for the three months ended March 31, 1999 was \$208,000 compared to a unrealized foreign exchange loss of \$54,000 in the same period in 1998. The unrealized profit in the first three months of 1999 is primarily due to the continuing rise of the US\$ against the EURO as from January 1, 1999 to March 31, 1999. 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.

INCOME TAXES

Provision for income tax was \$604,000 for the three months ended March 31, 1999, compared to \$603,000 for the same period in 1998. As a percentage of income before taxes the provision for income tax decreased from 44% in 1998 to 38% in 1999. The fluctuations in the Company's effective tax rate primarily reflect the impact of its international operations.

NET INCOME

Net income was \$987,000 or \$.18 per share on a diluted basis with approximately 5,487,000 weighted average common shares outstanding for the quarter ended March 31, 1999 compared to \$760,000 or \$.14 per share on a diluted basis with approximately 5,293,000 weighted average common shares outstanding for the same period of the previous year.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital needs have been to fund the working capital requirements created by its sales growth and to make acquisitions. The Company had cash and cash equivalents of \$12.7 million and net working capital of \$19.8 million at March 31, 1999.

Net cash used for operations was \$9.6 million for the three months ended March 31, 1999 compared with \$4.3 million of cash used for operating activities in the same period of the previous year. Cash was primarily used for a reduction in accounts payable and other liabilities (approximately \$20.1 million), offset by a reduction in accounts receivable (approximately \$11.0 million) as well as net earnings for the period.

Net cash provided by financing was \$1.4 million for the three months ended March 31, 1999 compared with \$304,000 of cash used for financing activities in the same period of the previous year. This increase primarily reflects the result of favorable permanent tax differences due to stock options exercised in the first quarter of 1999.

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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 March 31, 1999, 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 March 31, 1999, there was approximately \$2 million outstanding under this facility.

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 \$820,000 at March 31, 1999), 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 \$160,000 at March 31, 1999). The line bears interest at 8.25%. At March 31, 1999, there were no amounts outstanding under this 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 March 31, 1999 were approximately Lit 2,800,000,000 (the equivalent of approximately \$1.5 million at March 31, 1999). The unsecured borrowings bear interest at market rates ranging from 6.25% to 9.00%. At March 31, 1999 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 \$1.2 million at March 31, 1999), and is secured by its accounts receivable and inventory. The line bears interest at 5.875%. At March 31, 1999 approximately \$600,000 of this credit facility was used.

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 \$490,000 at March 31, 1999), and is secured by its accounts receivable and inventory and a FRF 3.0 million letter of credit. At March 31, 1999, there were no amounts outstanding under this line.

CERTAIN FACTORS AFFECTING OPERATING RESULTS

Certain statements contained in, or incorporated by reference in, this Form 10-Q 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.

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 are fully Y2K compliant.

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 compliance on its websites. 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN OPERATIONS

In addition to its activities in the United States, 67% of the Company's sales for the three month period ended March 31, 1999 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.

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.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to certain legal proceedings and claims which have arisen in the ordinary course of business and which have not been fully adjudicated. The results of legal proceedings cannot be predicted with certainty; however, in the opinion of management, the Company does not have a potential liability related to any legal proceedings and claims that would have a material adverse effect on its financial condition or results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit 27 - Financial Data Schedule

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SIGNATURES

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

PROGRAMMER'S PARADISE, INC.

May 12, 1999

By: /s/ John P. Broderick

Date

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

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EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit Number -----	Description of Exhibits -----	Page No. -----
<S> 27	<C> Financial Data Schedule	<C> 15

</TABLE>

<TABLE> <S> <C>

<ARTICLE>

5

<LEGEND>

This schedule contains summary financial information extracted from the Company's Consolidated Balance Sheet at March 31, 1999 and 1998 and Consolidated Statement of Income and Comprehensive Income for the three months ended March 31, 1998 and is qualified in its entirety by reference to such financial statements.

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