

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, 2002

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

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

Commission File No. 000-26408

Programmer's Paradise, Inc.

(Name of issuer in its charter)

Delaware

13-3136104

(State or other jurisdiction of  
Incorporation or organization)

(I.R.S. Employer Identification No.)

1157 Shrewsbury Avenue, Shrewsbury, New Jersey 07702

(Address of principal executive offices)

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 ☒ No ☐

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

There were 4,837,590 outstanding shares of Common Stock, par value \$.01 per share, as of April 22, 2002, not including 392,660 shares classified as Treasury Stock.

Page 1

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PART I - FINANCIAL INFORMATION  
PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

ASSETS

	March 31, 2002 ----	December 31, 2001 ----
	(Unaudited)	(Audited)
Current assets		
Cash and cash equivalents	\$ 10,928	\$ 11,425
Cash held in escrow	2,291	2,335
Accounts receivable, net	8,586	8,449
Inventory - finished goods	1,234	686
Prepaid expenses and other current assets	407	471
	-----	-----
Total current assets	23,446	23,366
Equipment and leasehold improvements, net	548	634
Other assets	51	57
	-----	-----
Total assets	\$ 24,045	\$ 24,057
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable and accrued expenses	\$ 9,742	\$ 9,649
Other current liabilities	350	350
	-----	-----
Total current liabilities	10,092	9,999
Commitments and contingencies		
Stockholders' equity		
Common stock	53	53
Additional paid-in capital	35,483	35,483
Treasury stock	(1,633)	(1,473)
Retained earnings	(19,441)	(19,539)
Accumulated other comprehensive loss	(509)	(466)
	-----	-----
Total stockholders' equity	13,953	14,058
	-----	-----
Total liabilities and stockholders' equity	\$ 24,045	\$ 24,057
	=====	=====

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

Page 2

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

	Three months ended March 31,	
	2002	2001
	----	----
Net sales	\$ 17,445	\$ 24,164
Cost of sales	15,173	21,627
	-----	-----
Gross profit	2,272	2,537
Selling, general and administrative expenses	2,168	2,898
	-----	-----
Income (loss) from operations	104	(361)
Interest income, net	52	98
Unrealized foreign exchange gain/(loss)	(10)	16
	-----	-----
Income (loss) before income tax provision	146	(247)
Provision (benefit) for income taxes	48	(91)
	-----	-----
Net income (loss)	\$ 98	\$ (156)
	=====	=====
Net income (loss) per common share-Basic	\$ 0.02	\$ (0.03)
	-----	-----
Net income (loss) per common share-Diluted	\$ 0.02	\$ (0.03)
	-----	-----
Weighted average common shares outstanding-Basic	4,919	4,986
	-----	-----
Weighted average common shares outstanding-Diluted	4,928	4,986
	-----	-----
Reconciliation to comprehensive income (loss):		
-----		
Net Income (loss)	\$ 98	\$ (156)

Other comprehensive loss, net of tax:		
Foreign currency translation adjustments	\$ (43)	\$ (252)
Total comprehensive income (loss)	\$ 55	\$ (408)

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

Page 3

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

	Three Months Ended March 31,	
	2002	2001
Cash flows from operating activities		
Net income (loss)	\$ 98	\$ (156)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	-	(138)
Depreciation and amortization	104	193
Changes in operating assets and liabilities:		
Accounts receivable	(137)	794
Inventory	(548)	457
Prepaid expenses and other current assets	65	1,368
Accounts payable and accrued expenses	94	(2,584)
Net change in other assets and liabilities	(2)	(147)
Net cash used for operating activities	(326)	(1,801)
Cash flows from investing activities:		
Change in net assets held for sale	-	12,163
Increase (decrease) in cash held in escrow	43	(2,878)
Capital expenditures	(10)	(58)
Net cash provided by investing activities	33	9,227
Cash flows from financing activities:		
Net proceeds from issuance of common stock	-	2
Purchase of treasury stock	(161)	-
Borrowings (repayments) under lines of credit	-	1,065
Net cash provided by (used for) financing activities	(161)	1,067
Effect of foreign exchange rate on cash	(43)	(251)
Net increase (decrease) in cash and cash equivalents	(497)	8,242
Cash and cash equivalents at beginning of period	11,425	2,091
Cash and cash equivalents at end of period	\$ 10,928	\$ 10,333

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

Page 4

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PROGRAMMER'S PARADISE, INC.  
NOTES TO CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
March 31, 2002

- 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.

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, restructuring and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the opinion of Management all adjustments that are of a normal recurring nature, considered necessary for fair presentation, have been included. Actual results may differ from these estimates under different assumptions or conditions. Operating results for the three months ended March 31, 2002, are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. 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, 2001.

2. Assets and liabilities of the Company's Canadian Subsidiary have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the year. Cumulative translation adjustments have been classified within other comprehensive income (loss), which is a separate component of stockholders equity in accordance with FASB Statement No. 130. "Reporting Comprehensive Income".
3. In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no

#### Notes to Condensed Consolidated Financial Statements (continued)

longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. The Company expects the adoption of FAS No. 142 to have no impact on the Company's operating results and financial position.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of", effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supercedes SFAS No. 121, removes goodwill from its scope and identifies the methods to be used in determining fair value. The Company expects the adoption of SFAS No. 144 to have no impact on the Company's operating results and financial position.

4. Pursuant to an Agreement, dated December 1, 2000 ("Stock Sale Agreement"), between the Company and PC-Ware Information Technologies AG, a German corporation ("PC-Ware"), on January 9, 2001 the Company sold all of the shares of its European subsidiaries for 14,500,000 Euros, subject to post-closing adjustments, including finalization of the closing balance sheet, in accordance with the Stock Sale Agreement

#### Page 5

between the Company and PC Ware, which remains to be resolved between the parties. As security for any claim of PC-Ware arising from alleged breaches of representations by the Company under the Stock Sale Agreement, 3,275,000 Euros are being held in a 240-day escrow. Such claims are subject to a 300,000 Euro de minimus amount and a 7,500,000 Euro maximum amount. In September 2001, PC-Ware made claims aggregating 2,190,127.16 Euros (plus interest) (the equivalent of approximately \$1,997,000) against the escrow.

On October 19, 2001, 735,789 Euros (the equivalent of approximately \$654,373) were distributed from the escrow account to the Company. The Company believes that PC-Ware's remaining claims are without merit and intends to vigorously dispute each in the arbitration proceedings, which will resolve the disputed claims.

5. Basic EPS is computed by dividing net earnings (loss) by the weighted

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

<TABLE> <CAPTION> <S>			<C>	<C>
			Three months ended March 31, -----	
			2002	2001
			----	----
Numerator:				
Net Income (loss)			\$ 98	\$ (156)
Denominator:				
Weighted average shares (Basic)			4,919	4,986
Dilutive effect of outstanding options			9	0
			-----	-----
Weighted average shares including assumed conversions (Diluted)			4,928	4,986
Basic net income (loss) per share			\$ 0.02	\$ (0.03)
Diluted net income (loss) per share			\$ 0.02	\$ (0.03)
</TABLE>				

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

### Overview

Programmer's Paradise, Inc. operates in one primary business segment: the marketing of technical software and hardware for microcomputers, servers and networks in the United States and Canada. We offer a wide variety of technical and general business application software and PC hardware and components from a broad range of publishers and manufacturers. We market our products through our well-known catalogs, direct mail programs and advertisements in trade magazines as well as through Internet and e-mail promotions. Through our wholly owned subsidiary, Lifeboat Distribution Inc., we distribute marketed products to dealers and resellers in the United States and Canada.

Page 6

The Company's sales and results of operations have fluctuated and are expected to continue to fluctuate on a quarterly basis as a result of a number of factors, including: the condition of the software industry in general; shifts in demand for software products; industry shipments of new software products or upgrades; the timing of new merchandise and catalog offerings; fluctuations in response rates; fluctuations in postage, paper, shipping and printing costs and in merchandise returns; adverse weather conditions that affect response, distribution or shipping; shifts in the timing of holidays; and changes in the Company's product offerings. The Company's operating expenditures are based on sales forecasts. If revenues do not meet expectations in any given quarter, operating results may be materially adversely affected.

### Results of Operations

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

			Three months ended March 31, -----	
			2002	2001
			----	----
Net sales			100.0%	100.0%
Cost of sales			87.0	89.5
			-----	-----
Gross profit			13.0	10.5
Selling, general and administrative expenses			12.4	12.0
			-----	-----
Income (loss) from operations			0.6	(1.5)
Interest income, net			0.3	0.4

Unrealized foreign exchange gain (loss)	(0.1)	0.1
	-----	-----
Income (loss) before income taxes	0.8	(1.0)
Income taxes	0.2	0.4
	-----	-----
Net income (loss)	0.6%	(0.6)%
	-----	-----

#### Net Sales

Net sales in the first quarter of 2002 decreased 28% or \$6.7 million to \$17.5 million compared to \$24.2 million for the same period in 2001. The quarter over quarter revenue decline reflects the continued difficult business environment and the decision to cease selling Microsoft Select and Enterprise license agreements. As stipulated in our annual report on Form 10-K, our business plan contemplates that sales for 2002 will be lower than in recent years, primarily due to the impact of the change in the reseller agreement with Microsoft.

#### Gross Profit

Gross profit as a percentage of net sales increased to 13.0% for the quarter ended March 31, 2002, compared to 10.5% for the same period in 2001. Gross profit in absolute dollars for the three-month period ended March 31, 2002 was \$2.3 million as compared to \$2.5 million in 2000. The increase in Gross Profit Margin reflects a shift in the mix of sales as a result of the substantial increase in higher margin sales compared to large revenue and low margin sales such as Microsoft Select and Enterprise licensing. As stipulated in our annual report on Form 10-K, our business plan contemplates that our Gross Profit Margin will increase as compared to recent years, primarily due to the impact of the change in the reseller agreement with Microsoft.

#### Page 7

#### Selling, General and Administrative Expenses

SG&A expenses for the quarter ended March 31, 2002 were \$2.2 million as compared to \$2.9 million for the same period in 2001, a decrease of \$0.7 million or 25%. This decrease was primarily due to lower personnel-related expenses, cost containment initiatives and improved cost control policies and procedures.

Each year SG&A has increased in absolute dollars. As a result of the restructuring plan described in our annual report on form 10-K, we anticipate that SG&A in absolute dollars will decline in 2002; however there can be no assurance that this will actually occur.

#### Unrealized Foreign Exchange Gain (Loss)

The unrealized foreign exchange loss for the quarter ended March 31, 2002 was \$10,000 compared to a gain of \$16,000 for the same period in 2001. The unrealized loss in the first three months of 2002 is primarily due to the trade activity with our Canadian subsidiary as well as the impact the lower Euro had on the 2.5 million Euros (the equivalent of approximately \$2.3 million at March 31, 2002) that is being held in escrow related the sale of our European Operations. The amount is subject to fluctuations in the Euro-to-U.S. dollar exchange rate and is at risk until converted to U.S. dollars after settlement of the claims. For more information regarding the sale of our European Operations and the resulting litigation reference is made to Part II, Item I of this report under the heading "Legal Proceedings". 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

For the quarter ended March 31, 2002, the Company recorded a provision for income taxes of approximately \$ 48,000, which consists of a provision for Canadian taxes.

The loss carry forwards offset the provision for income taxes for our US operations. As per March 31, 2002, the Company had recorded a US deferred tax asset of approximately \$6.7 million reflecting, in part, a benefit of \$3.2 million in federal and state tax loss carry forwards, which will expire in varying amounts between 2002 and 2021. As of March 31, 2002, there is a 100% valuation allowance on the deferred tax assets.

#### Liquidity and Capital Resources

Our cash and cash equivalents decreased by \$0.5 million to \$10.9 million at March 31, 2002, from \$11.4 million at December 31, 2001. Net cash used for operating activities amounted to \$0.3 million; net cash used in financing activities amounted to \$0.2 million.

Net cash used for operating activities was \$326,000 and primarily resulted from a \$0.5 million increase in inventory and a \$137,000 increase in trade receivables partly offset by our net income in the first quarter of 2002 of

\$98,000, a \$159,000 decrease in accounts payable and accrued expenses and prepaid expenses and other current assets. The increase in inventory is primarily due to higher inventory levels related to the release of Microsoft's new .NET products.

Cash used for financing activities of \$161,000 consisted primarily of the purchase of our own stock under the buyback program discussed below.

Page 8

In October 1999, the Company's Board of Directors authorized the purchase of up to 521,013 shares of its common stock, approximately 10% of its total outstanding shares in October of 1999, in both open market and private transactions, as conditions warrant. The repurchase program is expected to remain effective for 2002. We intend to hold the repurchased shares in treasury for general corporate purposes, including issuances under various stock option plans. As per March 31, 2001, we had repurchased approximately 323,000 shares.

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

The Company believes that the funds held in cash and cash equivalents will be sufficient to fund the Company's working capital and cash requirements at least through December 31, 2002. We currently do not have any credit facility and, in the foreseeable future, we do not plan to enter into an agreement providing for a line of credit.

#### Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company recognizes revenue from the sale of software and hardware for microcomputers, servers and networks upon shipment or upon electronic delivery of the product. The Company 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 months. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, restructuring and contingencies and litigation.

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

The Company believes the following critical accounting policies used in the preparation of its consolidated financial statements affect its more significant judgments and estimates. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized.

Page 9

While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

#### Certain Factors Affecting Operating Results

This report includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Statements in this report regarding future events or conditions, including statements regarding

industry prospects and the Company's expected financial position, business and financing plans, are forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. We strongly urge current and prospective investors to carefully consider the cautionary statements and risks contained in this Report. Such risks include, but are not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, contribution of key vendor relationships and support programs, as well as factors that affect the software industry generally.

The Company operates in a rapidly changing business, and new risk factors emerge from time to time. Management cannot predict every risk factor, nor can it assess the impact, if any, of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Stock Volatility. The technology sector of the United States stock markets has experienced substantial volatility in recent periods. Numerous conditions, which impact the technology sector or the stock market in general or the Company in particular, whether or not such events relate to or reflect upon the Company's operating performance, could adversely affect the market price of the Company's Common Stock. Furthermore, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor, increased competition, reduced vendor incentives and trade credit, higher postage and operating expenses, and other developments, could have a significant impact on the market price of the Company's Common Stock.

Page 10

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

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

In the quarter ended March 31, 2002, the Company did not invest in marketable securities. Cash is invested in short-term savings accounts with our primary bank, The Bank of New York. As such, the risk of significant changes in the value of our cash invested is minimal.

Information regarding quantitative and qualitative market risks related to Euro 2.5 million that is being held in escrow is set forth in Part II, Item I of this Report under the heading "Legal Proceedings".

Page 11

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

Pursuant to an Agreement, dated December 1, 2000 ("Stock Sale Agreement"), between the Company and PC-Ware Information Technologies AG, a German corporation ("PC-Ware"), on January 9, 2001 the Company sold all of the shares of its European subsidiaries for 14,500,000 Euros, subject to post-closing adjustments, including finalization of the closing balance sheet, in accordance with the Stock Sale Agreement between the Company and PC Ware, which remains to be resolved between the parties. As security for any claim of PC-Ware arising from alleged breaches of representations by the Company under the Stock Sale Agreement, 3,275,000 Euros are being held in a 240-day escrow. Such claims are subject to a 300,000 Euro de minimus amount and a 7,500,000 Euro maximum amount.



In September 2001, PC-Ware made claims aggregating 2,190,127.16 Euros (plus interest) (the equivalent of approximately \$1,997,000) against the escrow. On October 19, 2001, 735,789 Euros (the equivalent of approximately \$654,373) were distributed from the escrow account to the Company.

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

Item 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K

The Company filed a current report on Form 8-K on April 19, 2002 relating to a Change in Registrant's Certifying Accountant.

Page 12

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.

April 30, 2002  
-----  
Date

By: /s/ Simon F. Nynens  
-----  
Simon F. Nynens, Chief Financial  
Officer and Vice President

Page 13