

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

FORM 10-Q

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

For the quarterly period ended June 30, 2004

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

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

Commission File No. 000-26408

-----

Programmer's Paradise, Inc.

-----  
(Exact name of registrant as specified in its charter)

-----  
Delaware

13-3136104

-----  
(State or other jurisdiction of  
incorporation or organization)

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

1157 Shrewsbury Avenue, Shrewsbury, New Jersey 07702

-----

(Address of principal executive offices)

Registrant's Telephone Number (732)389-8950

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

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

There were 3,830,785 outstanding shares of Common Stock, par value \$.01 per share, as of August 11, 2004, not including 1,453,715 shares classified as Treasury Stock.

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PART I - FINANCIAL INFORMATION

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

	June 30, 2004 ----	December 31, 2003 ----
	(Unaudited)	(Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,169	\$ 5,878
Marketable Securities	7,508	5,033
Accounts receivable, net	10,379	7,783
Inventory - finished goods	1,507	1,119
Prepaid expenses and other current assets	544	333
	-----	-----
Total current assets	23,107	20,146
Equipment and leasehold improvements, net	252	292
Other assets	51	51
	-----	-----
Total assets	\$ 23,410	\$ 20,489

	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 11,538	\$ 8,919
Dividend payable	421	375
	-----	-----
Total current liabilities	11,959	9,294
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value; authorized, 10,000,000 shares; issued 5,284,500 shares	53	53
Additional paid-in capital	33,296	34,099
Treasury stock, at cost, 1,453,715 shares and 1,533,970 shares, respectively	(4,230)	(4,490)
Retained earnings	(17,660)	(18,545)
Accumulated other comprehensive income (loss)	(8)	78
	-----	-----
Total stockholders' equity	11,451	11,195
	-----	-----
Total liabilities and stockholders' equity	\$ 23,410	\$ 20,489
	=====	=====

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

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

<TABLE>  
<CAPTION>

ended	Six months ended		Three months	
	2004	June 30, ----- 2003	2004	June 30, -----
2003	----	----	----	
----				
<S>	<C>	<C>	<C>	
<C>				
Net sales 16,051	\$ 45,772	\$ 31,249	\$ 25,093	\$
Cost of sales 13,928	40,103	27,138	22,025	
-----	-----	-----	-----	--
Gross profit 2,123	5,669	4,111	3,068	
Selling, general and administrative expenses 1,961	4,753	3,939	2,531	
-----	-----	-----	-----	--
Income from operations 162	916	172	537	
Interest income, net 19	54	50	15	
Realized foreign exchange gain/(loss) 58	(27)	80	(6)	
-----	-----	-----	-----	--
Income before income tax provision	943	302	546	

Provision for income taxes 36	58	58	23	
-----	-----	-----	-----	--
Net income 203	\$ 885	\$ 244	\$ 523	\$
=====	=====	=====	=====	
Net income per common share - Basic 0.05	\$ 0.23	\$ 0.07	\$ 0.14	\$
=====	=====	=====	=====	
Net income per common share - Diluted 0.05	\$ 0.22	\$ 0.06	\$ 0.13	\$
=====	=====	=====	=====	
Weighted average common shares outstanding- Basic 3,727	3,812	3,736	3,827	
=====	=====	=====	=====	
Weighted average common shares outstanding- Diluted 3,792	4,103	3,802	4,118	
=====	=====	=====	=====	
Reconciliation to comprehensive income:				
Net Income 203	\$ 885	\$ 244	\$ 523	\$
-----	-----	-----	-----	--
Other comprehensive income(loss), net of tax:				
Unrealized gain (loss) on marketable securities 19	(36)	14	(46)	
Foreign currency translation adjustments 86	(50)	210	(12)	
-----	-----	-----	-----	--
Total comprehensive income 308	\$ 799	\$ 468	\$ 465	\$
=====	=====	=====	=====	

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

</TABLE>

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

<TABLE>  
<CAPTION>

other	Common Shares	Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings / (Deficit)	Accumulated comprehensive Income (loss)
Total	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
Balance at January 1, 2004 \$ 11,195	5,284,500	\$ 53	\$ 34,099	\$ (4,490)	\$ (18,545)	\$ 78
-----	-----	-----	-----	-----	-----	-----
Net income					885	

885						
Other comprehensive income:						
Exercise of stock options				260		
260						
Dividend paid			(382)			
(382)						
Dividend declared payable			(421)			
(421)						
Unrealized gain(loss) on						
marketable securities						(36)
(36)						
Translation adjustment						(50)
(50)						
----						
Comprehensive Income						
(86)						
	-----	-----	-----	-----	-----	-----
Balance at June 30, 2004	5,284,500	\$ 53	\$ 33,296	\$ (4,230)	\$ (17,660)	\$ (8)
\$ 11,451						
	=====	=====	=====	=====	=====	=====
=====						

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

</TABLE>

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

<TABLE>  
<CAPTION>

	Six Months Ended June 30, -----	
	2004	2003
	----	----
<S>	<C>	<C>
Cash flows from operating activities		
Net income	\$ 885	\$ 244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	105	173
Allowance for doubtful accounts	(4)	-
Attrition of marketable securities	(36)	-
Changes in operating assets and liabilities:		
Accounts receivable	(2,592)	389
Inventory	(388)	164
Prepaid expenses and other current assets	(211)	134
Accounts payable and accrued expenses	2,619	(782)
Net change in other assets and liabilities	(8)	(1)
	-----	-----
Net cash provided by operating activities	370	321
	-----	-----
Cash flows from investing activities:		
Purchases of available-for-sale securities	(3,475)	(3,334)
Redemptions of available-for-sale securities	1,000	1,000
Increase in cash held in escrow	-	-
Capital expenditures	(57)	(62)
	-----	-----
Net cash used for investing activities	(2,532)	(2,396)
	-----	-----
Cash flows from financing activities:		
Net proceeds from issuance of common stock	-	45
Dividend paid	(757)	(375)
Proceeds from exercise of stock options	260	-
Purchase of treasury stock	-	(372)
	-----	-----
Net cash used for financing activities	(497)	(702)

Effect of foreign exchange rate on cash	(50)	210
Net decrease in cash and cash equivalents	(2,709)	(2,567)
Cash and cash equivalents at beginning of period	5,878	6,072
Cash and cash equivalents at end of period	\$ 3,169	\$ 3,505

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

</TABLE>

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PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
June 30, 2004

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

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, 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 the Company's management all adjustments that are of a normal recurring nature, considered necessary for fair presentation, have been included. Actual results may differ from these estimates under different assumptions or conditions. The unaudited condensed consolidated statements of income for the interim periods are not necessarily indicative of results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities Exchange Commission for the year ended December 31, 2003.

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. The revenue for our Canadian operations in the first six months of 2004 increased by \$0.2 million to \$5.4 million as compared to the first six months of 2003. The revenue for our Canadian operations showed a slight decline of \$0.1 million to \$2.5 million in the second quarter of 2004 as compared to the second quarter of 2003.
3. Cumulative translation adjustments and unrealized gains (losses) on available-for-sale securities have been classified within other comprehensive income, which is a separate component of stockholders equity in accordance with FASB Statement No. 115, "Reporting Comprehensive Income".
4. The Company records revenues from sales transactions when title to products sold passes to the customer. The Company's shipping terms dictate that the passage of title occurs upon receipt of products by the customer. The majority of the Company's revenues relates to physical products and is recognized on a gross basis with the selling price to the customer recorded as net sales with the acquisition cost of the product to the Company recorded as cost of sales. At the time of sale, the Company also records an estimate for sales returns based on historical experience. Software maintenance products, third party services and extended warranties sold by the Company (for which the Company is not the primary obligor) are recognized on a net basis in accordance with SAB 101, "Revenue Recognition" and EITF 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". Accordingly, such revenues are recognized in net sales either at

the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by the Company, with no cost of goods sold. In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs", the Company records freight billed to its customers as net sales and the related freight costs as a cost of sales.

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

5. Investments in available-for-sale securities at June 30, 2004 were (in thousands):

<TABLE>  
<CAPTION>

<S>	Cost <C>	Market value <C>	Unrealized Gain (loss) <C>
U.S. Government Securities	\$ 5,535	\$ 5,521	\$ (14)
Corporate Bonds	\$ 2,009	\$ 1,987	\$ (22)
	-----	-----	-----
Total Marketable Securities	\$ 7,544	\$ 7,508	\$ (36)
	=====	=====	=====

</TABLE>

The cost and market value of the Company's investments at June 30, 2004 by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$ 6,541	\$ 6,523
Due in greater than one year	1,003	985
	-----	-----
Total investments	\$ 7,544	\$ 7,508
	==+=====	=====

6. 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):

	Six months ended June 30, -----	
	2004 ----	2003 ----
Numerator:		
Net Income	\$ 885	\$ 244
Denominator:		
Weighted average shares (Basic)	3,812	3,736
Dilutive effect of outstanding options	291	66
	-----	-----
Weighted average shares including assumed conversions (Diluted)	4,103	3,802
Basic net income per share	\$ 0.23	0.07
Diluted net income per share	\$ 0.22	\$ 0.06

Changes during 2004 in options outstanding for the combined plans were as follows:

	Number of Options -----	Weighted Average Exercise Price -----
Outstanding at January 1, 2004	577,475	\$3.19
Granted in 2004	495,000	8.03
Canceled in 2004	-	-
Exercised in 2004	80,255	3.24
	-----	
Outstanding at June 30, 2004	992,220	5.60

On June 10, 2004, the Company granted 495,000 options at an option price of \$8.03 per share to officers and key-employees of the Company. The options granted vested immediately on June 10, 2004. The Company granted options to purchase 125,000 shares to William H. Willett, the Company's President and Chief Executive Officer; options to purchase 100,000 shares to Simon Nynens, the Company's Executive Vice President and Chief Financial Officer; options to purchase 40,000 shares to Jeffrey Largiader, the Company's Vice President Sales & Marketing, options to purchase 40,000 shares to Vito Legrottaglio, the Company's Vice President and Chief Information Officer, options to purchase 40,000 shares to Dan Jamieson, General manager of the Company's Lifeboat division; and options to purchase 25,000 shares to Steve McNamara, the Vice President and General Manager of Programmer's Paradise Canada. Each director of the Company received options to purchase 25,000 shares of the Company's Common Stock at an option price of \$8.03 per share.

7. On June 10, 2004 our Board of Directors declared a quarterly dividend of \$.11 per share on our common stock payable July 23, 2004 to shareholders of record on July 6, 2004. Our Board intends to periodically review the amount and frequency of future payments, if any, in light of the Company's operations and need for capital. The dividend is reflected as a reduction of Additional Paid in Capital.
8. The Company had one major customer that accounted for 13.9% of total net sales during the six month period ended June 30, 2004, and 5.1% of total net accounts receivable as of June 30, 2004. The Company had two major vendors that accounted for 28.3% and 17.1% of total purchases, respectively, during the six month period ended June 30, 2004. The Company had one major customer that accounted for 10% of total net sales during the six month period ended June 30, 2003, and 12.5% of total net accounts receivable as of June 30, 2003. The Company had two major vendors that accounted for 26.5% and 11.9% of total purchases during the six month period ended June 30, 2003.
9. For the quarter ended June 30, 2004, the Company recorded a provision of \$23,000, which consists of a provision of \$28,000 for Canadian income taxes as well as a \$5,000 benefit for U.S. taxes. For the quarter ended June 30, 2003, the Company recorded a provision of \$36,000, also for Canadian income taxes. The loss carry forwards offset the provision for income taxes for our U.S. operations. For the six month period ended June 30, 2004, the Company recorded a provision for income taxes of \$58,000, which consists of a provision of \$63,000 for Canadian income taxes as well as \$5,000 benefit for U.S. taxes. For the six months period ended June 30, 2003, the Company recorded a provision for income taxes of approximately \$58,000 for the six month period ended June 30, 2003. This provision is for Canadian income taxes. The loss carry forwards offset the provision for income taxes for our U.S. operations.

As of June 30, 2004, the Company had a U.S. deferred tax asset of approximately \$5.9 million reflecting, in part, a benefit of \$2.9 million in federal and state tax loss carry forwards, which will expire in varying amounts between 2004 and 2023. As a result of the current uncertainty of realizing the benefits of the tax loss carry forward, valuation allowances equal to the tax benefits for the U.S. deferred taxes have been established. The full realization of the tax benefit associated with the carry forward depends predominantly upon the Company's ability to generate taxable income during the carry forward period. The valuation allowance will be evaluated at the end of each reporting period, considering positive and negative evidence about whether the deferred tax asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required. The Company's ability to utilize certain net operating loss carry forwards is restricted to approximately \$1.5 million per year cumulatively, as a result of an ownership change pursuant to Section 382 of the Internal Revenue Code.

10. The Company accounts for stock option plans under the recognition and measurement principles of Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. No

stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

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

ended	Three months ended		Six months	
	2004	June 30, 2003	June 30, 2004	
2003				
-----				
<S>	<C>	<C>	<C>	
<C>				
Net income - as reported	523	203	885	
244				
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,095)	(27)	(1,113)	
(55)				
-----				
Pro forma net income (loss)	(572)	176	(228)	
189				
=====				
Net income (loss) per share:				
Basic earnings (loss) per share - as reported	\$ 0.14	\$ 0.05	\$ 0.23	\$
0.07				
=====				
Basic earnings (loss) per share - pro forma	\$ (0.15)	\$ 0.05	\$ (0.06)	\$
0.05				
=====				
Net income per share:				
Diluted earnings (loss) per share - as reported	\$ 0.13	\$ 0.05	\$ 0.22	\$
0.06				
=====				
Diluted earnings (loss) per share - pro forma	\$ (0.14)	\$ 0.05	\$ (0.06)	\$
0.05				
=====				

</TABLE>

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Certain Factors Affecting Operating Results" and elsewhere in this report. The following discussion should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2003.

### Overview

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

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

The Company's sales and results of operations have fluctuated and are expected to continue to fluctuate on a quarterly basis as a result of a number of factors, including: the condition of the software industry in general; shifts in



demand for software products; industry shipments of new software products or upgrades; the timing of new merchandise and catalog offerings; fluctuations in response rates; fluctuations in postage, paper, shipping and printing costs and in merchandise returns; adverse weather conditions that affect response, distribution or shipping; shifts in the timing of holidays; and changes in the Company's product offerings. The Company's operating expenditures are based on sales forecasts. If revenues do not meet expectations in any given quarter, operating results may be materially adversely affected.

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## 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. This comparison of financial results is not necessarily indicative of future results:

<TABLE>  
<CAPTION>

	Three months ended June 30, -----		Six months ended June 30, -----	
	2004	2003	2004	2003
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	87.8	86.8	87.6	86.8
	-----	-----	-----	-----
Gross profit	12.2	13.2	12.4	13.2
Selling, general and administrative expenses	10.1	12.2	10.4	12.7
	----	----	----	----
Income from operations	2.1	1.0	2.0	0.5
Interest income, net	0.1	0.1	0.2	0.2
Realized Foreign exchange gain(loss)	0.0	0.4	(0.1)	0.3
	---	---	-----	---
Income before income taxes	2.2	1.5	2.1	1.0
Provision for income taxes	0.1	0.2	0.2	0.2
	---	---	---	---
Net income	2.1%	1.3%	1.9%	0.8%
	---	---	---	---

</TABLE>

## Net Sales

Net sales in the second quarter of 2004 increased 56% or \$9.0 million to \$25.1 million compared to \$16.1 million for the same period in 2003. For the six month period ended June 30, 2004, net sales increased by \$14.5 million or 46% compared to same period in 2003. We attribute this growth in net sales to a more favorable IT spending environment, improved productivity and continued expansion of our account executive team in the second quarter of 2004, consistent with the previous three quarters. We plan to continue to expand our account executive team in the third quarter of 2004.

## Gross Profit

Gross profit as a percentage of net sales was 12.2% for the quarter ended June 30, 2004, compared to 13.2% for the same period in 2003 and 12.6% in the first quarter of 2004. Since revenue increased by 56%, gross profit in absolute dollars increased \$1.0 million to \$3.1 million as compared to \$2.1 million in the second quarter of 2003. Compared to the first quarter of 2004, our gross profit in absolute dollars increased \$467,000 or 18%. For the six month period ended June 30, 2004, gross profit in absolute dollars increased \$1.6 million to \$5.7 million as compared to \$4.1 million in the same period in 2003.

The increase in gross profit dollars and the decrease in gross profit margins as a percentage of net sales reflect a shift in the product mix of sales and the competitive nature of our business. We have won many bids based on our aggressive pricing and we plan to continue to do so.

Various factors impact our gross margins, including our product mix, the continued participation by vendors in rebate programs, our pricing strategies, market conditions and other factors, any of which could result in a reduction of gross profit margins below those realized in the second quarter of 2004.

## Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expenses for the quarter ended June 30, 2004 were \$2.5 million as compared to \$2.0 million for the same period in 2003, an increase of \$0.5 million or 29%. For the six month period ended June 30, 2004, SG&A expenses increased by \$0.8 million or 21%.

The primary drivers in SG&A expenses in the second quarter of 2004 were payroll costs and employee related costs. Compared to the second quarter of 2003, payroll costs increased \$0.1 million, primarily due to our continued investment in our sales force. Our sales force consists of account executives as well as vendor specialists who provide consultation in areas requiring specialized product expertise. Employee-related costs (which includes items such as commission, bonuses, profit sharing and incentive awards) increased \$0.2 million, primarily a result of our increase in revenue and gross margin. Other selling and administrative costs increased \$0.2 million, primarily costs to support a larger business, such as professional fees, telephone expenses and credit card fees. Other SG&A costs for the second quarter of 2004 also included a bad debt expense of \$0.1 million in order to maintain our valuation allowance for bad debt as we use the percentage-of-sales method for this allowance.

We plan to continue to invest in our sales force while reviewing our organization and cost structure in an effort to further reduce operating expenses and improve efficiencies. These factors, combined with increased legal requirements, including the Sarbanes-Oxley Act of 2002, will likely result in higher SG&A expenses in 2004.

## Foreign Currency Transactions Gain (Loss)

The realized foreign exchange loss for the quarter ended June 30, 2004 was \$6,000 compared to a profit of \$58,000 for the same period in 2003. Foreign exchange gains and losses primarily result from our trade activity with our Canadian subsidiary. Although the Company does maintain bank accounts in Canadian currencies to reduce currency exchange fluctuations, the Company is, nevertheless, subject to risks associated with such fluctuations.

## Income Taxes

For the quarter ended June 30, 2004, the Company recorded a provision of \$23,000, which consists of a provision of \$28,000 for Canadian income taxes as well as a \$5,000 benefit for U.S. taxes. For the quarter ended June 30, 2003, the Company recorded a provision of \$36,000, also for Canadian income taxes. The loss carry forwards offset the provision for income taxes for our U.S. operations. For the six month period ended June 30, 2004, the Company recorded a provision for income taxes of \$58,000, which consists of a provision of \$63,000 for Canadian income taxes as well as \$5,000 benefit for U.S. taxes. For the six months period ended June 30, 2003, the Company recorded a provision for income taxes of approximately \$58,000 for the six month period ended June 30, 2003. This provision is for Canadian income taxes. The loss carry forwards offset the provision for income taxes for our U.S. operations.

As of June 30, 2004, the Company had a U.S. deferred tax asset of approximately \$5.9 million reflecting, in part, a benefit of \$2.9 million in federal and state tax loss carry forwards, which will expire in varying amounts between 2004 and 2023. As a result of the current uncertainty of realizing the benefits of the tax loss carry forward, valuation allowances equal to the tax benefits for the U.S. deferred taxes have been established. The full realization of the tax benefit associated with the carry forward depends predominantly upon the Company's ability to generate taxable income during the carry forward period. The valuation allowance will be evaluated at the end of each reporting period, considering positive and negative evidence about whether the deferred tax asset will be realized. At that time, the allowance will either be increased or reduced; reduction could result in the complete elimination of the allowance if positive evidence indicates that the value of the deferred tax assets is no longer impaired and the allowance is no longer required. The Company's ability to utilize certain net operating loss carry forwards is restricted to approximately \$1.5 million per year cumulatively, as a result of an ownership change pursuant to Section 382 of the Internal Revenue Code.

## Liquidity and Capital Resources

During the first six months of 2004, our cash and cash equivalents decreased by

\$2.7 million to \$3.2 million at June 30, 2004, from \$5.9 million at December 31, 2003. Net cash provided by operating activities amounted to \$0.4 million; net cash used for investing activities amounted to \$2.5 million and cash used for financing activities amounted to \$0.5 million, the effect of foreign exchange rate on cash was \$0.1 million.

Net cash provided by operating activities in the first six months of 2004 was \$0.4 million and primarily resulted from our net income of \$0.9 million and a \$2.6 million increase in accounts payable and accrued expenses. This was partly offset by a \$2.6 million increase in accounts receivable, a \$0.4 million increase in inventory and a \$0.2 million increase in prepaid expenses and other current assets. The increase in accounts receivable relates primarily to our increased revenue. Days sales outstanding increased to 41 days as per June 30, 2004 as compared to 34 days as per June 30, 2003. The increase in accounts payable is primarily due to our increased revenue and our normal cycle of payments. For the six months ended June 30, 2004, the unrealized gain on our marketable securities amounted to \$10,000.

Net cash used for investing activities in the first six months of 2004 amounted to \$2.5 million. In light of the current low interest rates on our short-term savings accounts we decided to invest an additional net \$2.5 million in U.S. government securities. These securities are highly rated and highly liquid. These securities are classified as available-for-sale securities in accordance with SFAS 115, and as a result unrealized gains and losses are reported as part of other comprehensive income (loss).

Net cash used for financing activities in the first six months of 2004 of \$0.5 million consisted of the \$0.8 million payment of our declared dividends, which was partly offset by the proceeds from the exercise of options.

On September 16, 2002, our Board of Directors authorized the purchase of 500,000 shares of our common stock. On October 9, 2002, our Board of Directors authorized us to purchase an additional 500,000 shares of our common stock. These two purchase approvals are in addition to authorizations for us to purchase 490,000 shares (granted in March 2002) and 521,013 shares (granted in October 1999) in both open market and private transactions, as conditions warrant.

The repurchase program is expected to remain effective for the remainder of 2004. We intend to hold the repurchased shares in treasury for general corporate purposes, including issuances under various stock option plans. As of June 30, 2004, we owned 1,453,715 shares of our common stock purchased at an average cost of \$3.18 per share. During the first six months of 2004, we did not repurchase any shares of our common stock.

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

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

#### Contractual Obligations (Dollars in thousands)

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<TABLE>  
<CAPTION>

years	Payment due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5
-----					
<S>	<C>	<C>	<C>	<C>	<C>
Long-term debt	-	-	-	-	-
-					
Capital Lease Obligations	-	-	-	-	-
-					
Operating Leases	\$1,387	\$480	\$907	-	-

-				
Unconditional Purchase Obligations	-	-	-	-
-				
Other Long term Obligations	-	-	-	-
-				
-----				
-----				
Total Contractual Obligations	\$1,387	\$480	\$907	-
-				
=====				
=				
</TABLE>				

Operating leases primarily relates to the lease of the space used for our operations in Shrewsbury, NJ.

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

As of June 30, 2004, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

#### Critical Accounting Policies and Estimates

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

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

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

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

In accordance with EITF 02-16, "Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)," consideration from vendors, such as advertising support funds, are accounted for as a reduction to cost of sales unless certain requirements are met showing that the vendor receives

an identifiable fair value in exchange for the consideration. If these specific requirements related to individual vendors are met, the consideration is

accounted for as revenue.

The Company believes the following critical accounting policies used in the preparation of its consolidated financial statements affect its more significant judgments and estimates. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required.

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

#### Certain Factors Affecting Operating Results

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

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

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

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

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

Furthermore, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor, increased competition, reduced vendor incentives and trade credit, higher postage and operating

expenses, and other developments, could have a significant impact on the market price of the Company's Common Stock.

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

In addition to its activities in the United States, the Company also conducts business in Canada. We are subject to general risks attendant to the conduct of business in Canada, including economic uncertainties and foreign government

The Company's \$7.5 million investments in marketable securities are only in highly rated and highly liquid corporate bonds and U.S. government Securities. The remaining cash balance 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.

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" as of June 30, 2004. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter ended June 30, 2004, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation during the quarter ended June 30, 2004 there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Company held its Annual Meeting of Stockholders (the "Meeting") during the fiscal quarter ended June 30, 2004.

- | <S>                   | For<br>-----<br><C> | Against<br>-----<br><C> | Abstain<br>-----<br><C> |
|-----------------------|---------------------|-------------------------|-------------------------|
| William H. Willett    | 3,253,598           | 1,815                   | -                       |
| F. Duffield Meyercord | 3,253,598           | 1,815                   | -                       |
| Edwin H. Morgens      | 3,221,562           | 33,851                  | -                       |
| Allan D. Weingarten   | 3,253,598           | 1,815                   | -                       |
| James W. Sight        | 3,253,598           | 1,815                   | -                       |
| Mark T. Boyer         | 3,253,598           | 1,815                   | -                       |

(a) Exhibits.

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

(b) Reports on Form 8-K

Current Report on Form 8-K (Items 9 and 12) filed on April 23, 2003, attaching a press release announcing the Company's financial results for the quarter ended March 31, 2004.

SIGNATURES

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

PROGRAMMER'S PARADISE, INC.

August 13, 2004  
-----  
Date

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

August 13, 2004  
-----  
Date

By: \s\ William H. Willett  
-----  
William H. Willett, Chairman of the Board, President  
and Chief Executive Officer

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CERTIFICATION

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I, William H. Willett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Programmer's Paradise, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2004

\s\ William H. Willett

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William H. Willett

Chief Executive Officer



CERTIFICATION

I, Simon F. Nynens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Programmer's Paradise, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2004

\s\ Simon F. Nynens

Simon F. Nynens  
Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Programmer's Paradise, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William H. Willett, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

\s\ William H. Willett

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William H. Willett

Chief Executive Officer

August 4, 2004

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by Company and furnished to the Securities and Exchange Commission or its staff upon request.

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Programmer's Paradise, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Simon F. Nynens, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

\s\ Simon F. Nynens

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Simon F. Nynens  
Chief Financial Officer  
August 4, 2004

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by Company and furnished to the Securities and Exchange Commission or its staff upon request.