

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED) For the fiscal year ended December 31, 1997

OR

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

For the transition period from _____ to _____

Commission file number: 33-92810

PROGRAMMER'S PARADISE, INC.

(Exact name of registrant as specified in its charter)

Delaware 13-136104
(State or other jurisdiction (IRS Employer Identification Number)
of incorporation)

1163 Shrewsbury Avenue, Shrewsbury, New Jersey 07702
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (908) 389-8950

Securities registered pursuant to section 12(b) of the Act: NONE
Securities registered pursuant to section 12(g) of the Act:
Common Stock, par value \$0.01 per share (Title Of Class)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

The aggregate market value of the voting stock held by non-affiliates of the Registrant computed by reference to the closing sales price for the Registrant's Common Stock on March 20, 1998, as reported on the NASDAQ National Market, was approximately \$47,039,000.

The number of shares outstanding of the Registrant's Common Stock as of March 20, 1998: 4,824,498 shares.

In determining the market value of the voting stock held by any non-affiliates, shares of Common Stock of the Registrant beneficially owned by directors, officers and holders of more than

10% of the outstanding shares of Common Stock of the Registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Documents Incorporated by Reference: Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Stockholders scheduled to be held on June 16, 1998 are incorporated by reference into Part III of this Report.

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PART I

ITEM 1 BUSINESS.

GENERAL

Programmer's Paradise, Inc., a Delaware corporation (the "Company"), is a recognized international direct marketer of software for microcomputers, servers

and networks, operating through three separate distribution channels in the United States and Europe - catalog, corporate reseller and wholesale distribution with a strategic focus on expanding its catalog and corporate reseller activities aimed at people who design, program, document, support and use software. The Company currently offers catalogs in local languages and with prices in local currencies in the United States, Canada, Italy, Germany, Austria, the United Kingdom, France and the Netherlands, and also operates software-only reseller businesses in each of those countries.

A key element of the Company's 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, acquired in 1996 and directed at programmers working in large corporations. These catalogs are full color "magalogs" created in-house, which combine traditional catalog sales offerings with detailed product descriptions, product announcements and contain substantial amounts of paid and cooperative advertising. The Programmer's Paradise catalog features the Company's proprietary and brand-distinctive logo, the "Island Man" cartoon character. In 1997, the Company distributed over 7.6 million catalogs, typically featuring more than 1,000 stock keeping units ("SKUs") in its larger catalogs. The Company estimates that its catalog operations, which have historically had the highest gross margin of the Company's distribution channels, contributed 40% of its revenue and 59% of gross margin in 1997.

Through its multiple channels, the Company offers more than 12,000 SKUs, consisting of technical and general business application software, from over 1,000 publishers, at prices generally discounted below manufacturers' suggested retail prices. The Company's catalogs contain substantial amounts of advertising and offer one of the most complete collections of microcomputer technical software, including programming languages, tools, utilities, libraries, development systems, interfaces and communications products. Many technical software programs are difficult for developers to source on their own and, notwithstanding the large selection of programs offered by the Company, the Company frequently searches for titles requested by its customer base. The Company believes that its catalogs are important marketing vehicles for microcomputer software publishers and that they provide a cost-effective and service-oriented means to market, sell and fulfill technical software products.

The Company also operates via the Internet through its domestic and international websites. Each site is linked to each other and fully capable of electronic commerce. The Company recently announced the introduction of ISP* eCOS, a new business-to-business e-commerce solution. ISP* eCOS offers the end-user a comprehensive product database with multimedia capabilities, providing information on products, prices and availability as well as electronic purchase requests. The Company believes that this technology will be extremely beneficial to its corporate customers, both in terms of process cost reductions and in improved accessibility to corporate goods and services.

International expansion is an integral part of the Company's strategy, with its European-based operations accounting for approximately 60% of sales in the year ended December 31, 1997, and approximately 46% of gross margin for the same period. The Company began European-based operations in the first quarter of 1993 when it acquired a controlling interest in Lifeboat Associates Italia Srl ("Lifeboat Italy"), a long-standing software wholesale distributor in Italy with an orientation

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towards technical software. In June 1994, the Company acquired a controlling interest in ISP*D International Software Partners GmbH ("ISP*D"), a large software-only dealer, a leading independent supplier of Microsoft Select licenses in Germany and a significant microcomputer software dealer 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 Limited, 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 ("ISP*F"), 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 (Logicsoft) the holding company for Logicsoft Europe BV, located in Amsterdam, the Netherlands. Logicsoft is the largest software-only corporate reseller of PC software in The Netherlands. As a result of the acquisition, the Company now holds the lead position in over 40% of the European software market.

The Company was incorporated in Delaware in 1982. In May 1995, the Company changed its name from "Voyager Software Corp" to "Programmer's Paradise, Inc." The Company's principal executive offices are located at 1163 Shrewsbury Avenue, Shrewsbury, New Jersey 07702 and its telephone number is (732) 389-8950.

PRODUCTS

The Company offers over 12,000 SKUs consisting of technical and general business application software from more than 1,000 publishers, including Microsoft, Sybase, Borland, IBM, Symantec, Blue Sky Software and NuMega Technologies, at prices generally discounted below manufacturer's suggested retail prices. The Company screens new products and selects products for inclusion in its catalogs based on features, quality, sales trends, price, margins and warranties.

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

MARKETING AND SALES

The Company operates three separate distribution channels - catalog operations (Programmer's Paradise, Programmer's Supershop, Internet Paradise, Components Paradise, NT Supershop and System Science), corporate reselling to large accounts (ISP-USA in the United States, ISP*D in Germany, ISP*F in France, Logicsoft Europe BV in The Netherlands, ISP*UK in the United Kingdom and ISP*I in Italy) and wholesale distribution to dealers and large resellers (Lifeboat Distribution in the U.S. and Lifeboat Italy in Milan, Italy). Management believes that this diversification of distribution channels is complementary and operationally cost effective. Further, due to the volume of purchasing by the Company, and also due to the unique magazine/catalog format of the Company's catalogs, the Company believes it is able to obtain favorable pricing, prompt supply of upgrades and significant marketing funds.

Telemarketing and Technical Support. The Company employs telemarketing representatives who assist customers in purchasing decisions, process product orders and respond to customer inquiries

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on order status, product pricing and availability. The telemarketers are trained to answer all basic questions about products. On technical issues, there is an in-house technical support staff, which is able to respond to most inquiries over the phone, with the balance researched off-line. For product literature and technical fact sheets, the Company employs its fax on demand literature service supported by a CD-ROM-based reference library. Through the Company's sophisticated domestic information systems, a telemarketer can quickly access a customer's record, which details past purchases as well as billing information. Similar capabilities exist in the Company's international operations.

Customers and Backlog. No single customer, including direct end users or resellers of products, accounted for more than 5% of the Company's revenues during the fiscal year ended December 31, 1997. Because the Company generally ships products within 48 hours of receipt of an order from a customer, backlog is not material to an understanding of its business.

CATALOG OPERATIONS

Catalog. The Company has two primary established catalogs - Programmer's Paradise, directed at independent programming professionals, and, The Programmer's Supershop directed at programmers in large corporations. Programmer's Paradise and Programmer's Supershop, each containing approximately 100 to 120 pages, are full color "magalogs" which combine traditional catalog sales offerings with detailed product descriptions, product announcements and substantial amounts of paid and cooperative advertising. The Programmer's Paradise catalog features the Company's distinctive "Island Man" cartoon character and is recognized as a leading source for technical software in the United States.

The Programmer's Supershop catalog was acquired in June 1996, from The Software Developer's Company, Inc., the Company's largest competitor in the catalog channel. Under the terms of the purchase, the Company received all rights and title to The Programmer's Supershop catalog business, inbound and outbound telemarketing, reseller operations, web site and the operations of Software Developers Company German subsidiary. In conjunction with the Supershop and recently introduced NT Supershop catalogs, the Company has energized and supported an outbound telemarketing program as part of its domestic catalog operations, which targets mid-size to large commercial, governmental and educational accounts in the United States.

In addition to its two flagship catalogs, the Company developed and launched two additional catalogs during 1996. Components Paradise was launched in March 1996 and is directed to the Visual Basic add-on marketplace. Internet Paradise was developed and launched in May 1996 to capture the Internet development tool market. During 1997, the Company developed and launched its newest segmented catalog- NT Supershop, which is directed to the IT professional working with the NT operating platform. In September 1997, the Company opened a distribution and call-center in Mississauga, Canada and launched Programmer's Paradise, Canada to support the growing Canadian developer market.

The Company continuously attracts new customers by selectively mailing catalogs and other direct mail materials to prospective customers, as well as through advertising in magazines and trade journals. The Company's domestic mailing list currently consists of a core Programmer's Paradise and Programmer's Supershop buyer list of approximately 150,000 customers who have purchased products from the Company within the 24 months ended December 31, 1997, plus selected names from the Company's prospect list, lists of names provided by publishers and lists of names rented from others.

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The Company seeks to have these catalogs reach a similar status in Europe. The Company's European catalogs (Programmer's Paradise Italia, Software Paradise Deutschland, Programmer's Paradise Deutschland Corporate Edition, Programmer's Paradise U.K., Programmer's Paradise France and the 1997 introduction of Programmer's Paradise- The Netherlands) are offshoots of the U.S. versions. They are published in local languages and present offerings in local currencies, while using similar but localized cover graphics, including the Company's proprietary logo, the "Island Man" cartoon character. The Company also distributes the popular System Science catalog in the United Kingdom. This catalog has long been established as one of the pre-eminent publications for programmers in the U.K. and is produced four times per year.

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

Electronic Distribution. The Company also conducts business via the Internet through its two domestic websites: and foreign websites. Through an agreement announced in July 1996, with CyberSource Corporation of Menlo Park, California, the Company began electronic delivery of software. At December 31, 1997, the Company had approximately 170 products available for electronic distribution. Electronic distribution is also mission critical to the Company's foreign subsidiaries. Each of the foreign websites is linked to each other as well as the domestic site and each is capable of electronic commerce. The Company recently introduced a new business-to-business e-commerce solution called ISP* eCOS. ISP* eCOS offers a comprehensive product database with multimedia capabilities giving the end-user instant information on a wide range of products, pricing and availability while enabling the user to generate electronic purchase requests. The Company believes that this technology will be extremely beneficial to its corporate customers both in terms of process cost reductions and in improved accessibility to corporate goods and services.

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

Cooperative and Fee-Based Advertising. The Company engages in cooperative and fee-based advertising with software publishers in accordance with written advertising insertion order agreements. Under these agreements, the Company places advertisements or prints catalogs that feature publisher discounts, advertising allowances and rebates. Frequently, the Programmer's Paradise logo and telephone number are included in the promotion of selected publishers and incoming calls are handled by Company representatives. In addition, the Company often coordinates its catalog distribution and other marketing initiatives to coincide with new product releases. Many suppliers also provide funds to the Company based upon an agreed amount of coverage given in the catalogs for their respective products, thereby financing the cost of catalog publication and distribution. In 1997, the Company's cooperative and fee-based advertising reimbursements totaled less than 12% of total product revenues

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in the Company's domestic operations, and significantly smaller percentages in the European operations.

CORPORATE RESELLING

Direct corporate reselling is primarily conducted in Europe by ISP*D, which was acquired by the Company in June 1994. The Company has been capitalizing on

ISP*D's strength in Germany as a base for pan-European business development, utilizing the offices and operations of all of the Company's subsidiaries in Europe. The acquisition of Logicsoft Holding BV was the most recent example of the Company's strategy to provide value-added services to its pan-European and eventually worldwide customer base. It is the Company's strategy to become the European-based corporate reseller of choice for European companies desiring coordinated purchasing agreements for U.S. subsidiaries. In pursuit of that goal, the Company has been certified by Microsoft as an Authorized Reseller for its Select Licensing Program. Select status in the United States enhances the Company's ability to provide seamless agreements to its corporate customers that require international service.

ISP*D's experienced sales force, each member of which is assigned a specific territory in Germany or Austria, has built relationships with corporate customers through regular phone contact and personalized service. Account executives work directly with procurement managers, management information system managers and computer support managers of existing and potential customers to identify the specific needs of each customer and to facilitate the acquisition of software within the customer's organizational framework. They also maintain close contact with customers in order to provide them with timely communications and assistance with any special or strategic requests. In January 1996, ISP*D established a full-time consulting, training and programming services division (ISP*D Corporate Services) and in 1997, formed a joint venture with National TechTeam to provide Help-Desk services enabling the Company to market itself on the basis of its overall price and service advantage in an environment where customers typically utilize two or more suppliers to satisfy their software needs. During 1997, ISP*D Corporate Services became a Certified Microsoft Solution Provider and attained the status of a Microsoft Authorized Training and Education Center.

WHOLESALE OPERATIONS

Through Lifeboat Distribution and Lifeboat Italy, the Company sells, at wholesale, technical software to storefront retail dealers, superstores, resellers and mail order companies. The U.S. retailers include Micro Age and Comp USA, while the resellers include ASAP Software Express, Stream International, Software House International, Softmart Incorporated and Software Spectrum. In addition, Lifeboat Italy wholesales productivity software.

PURCHASING AND FULFILLMENT

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

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The Company believes that effective purchasing is a key element of its business strategy to provide technical software at competitive prices. The Company believes that volume purchases enable it to obtain favorable and competitive product pricing. The Company purchases products from more than 1,000 publishers. Domestically, in 1997 the Company purchased approximately 50% of its products directly from manufacturers and publishers and the balance from two distributors - Ingram and Merisel. Internationally, in 1997 the Company's foreign subsidiaries purchased approximately 66% of its products directly from manufacturers and publishers. The largest volume of purchases by the Company from distributors was from Ingram, representing approximately 12.7% of worldwide purchases in 1997. The Company believes it can purchase substantially all products purchased from Ingram from other competing wholesalers under similar terms. Domestically, the leading 10 vendors of the Company accounted for approximately 71% of its purchases. The leading five international vendors of the Company accounted for approximately 74% of its consolidated purchases. Management estimates that during 1997 approximately 56% of worldwide revenues of the Company were derived from products published by Microsoft.

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

the United States, the Netherlands and Germany, and monthly in France and the U.K. to verify its inventory levels on a timely basis. Additionally, some suppliers or distributors will "drop ship" products directly to the customers, which reduces physical handling by the Company. These inventory management techniques allow the Company to offer a greater range of products without increased inventory requirements. Generally, the Company has been able to return unsold or obsolete inventory within specified intervals of the purchase date to its vendors through written agreements with, or unwritten policies of, such vendors. Domestic orders are shipped via United Parcel Service. Upon request, at an additional charge, overnight delivery services are available. The Company operates distribution facilities in Shrewsbury, New Jersey; Mississauga, Canada; Munich, Germany; Milan, Italy; London, England; Paris, France and Amsterdam, The Netherlands.

MANAGEMENT INFORMATION SYSTEMS

In the U.S., the Company operates a management information system that allows for centralized management of key functions, including inventory and accounts receivable management, purchasing, sales and distribution. As part of the acquisition of substantially all of the assets of The Software Developer's Company, Inc., the Company acquired SDC's management information system, which is more adaptive to direct marketing organizations than the Company's prior system. The system allows the Company, among other things, to track direct marketing campaign performance, to monitor sales trends, make marketing event driven purchasing decisions, and provide product availability and order status information. In addition to the main system, the Company has systems of networked personal computers, which facilitates data sharing and provides an automated office environment, as well as microcomputer-based desktop publishing systems. The Company's European operations use local systems, which are being modified to allow exchange of data with the Company's U.S.

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operations. The Company believes that its management information systems and planned enhancements are sufficient to sustain its present operations and its anticipated growth for the foreseeable future.

TRADEMARKS, INTELLECTUAL PROPERTY AND LICENSES

The Company conducts its business under the trademarks and service marks of Programmer's Paradise, The Programmer's Supershop, The "Island Man" cartoon character logo, Lifeboat, DEMO, demo-it!, System Science, ISP*D, ISP*F and Logicsoft. The Company believes that its trademarks and service marks have significant value and are an important factor in the marketing of its products. The Company intends to use and protect these and related marks, as necessary. The Company does not maintain a traditional research and development group, but works closely with software authors and publishers and other technology developers to stay abreast of the latest developments in microcomputer technology. In connection with its publishing operations, from time to time the Company has funded a portion of the development of publishing properties under license to the Company, by providing the author advances, which are applied against royalties.

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

EMPLOYEES

As of December 31, 1997, the Company had 95 full-time employees in North America, including 54 in sales and marketing, 15 in purchasing and distribution, and 26 in administration, accounting and MIS and 3 part-time employees. As of December 31, 1997, the Company had 142 full-time employees in Europe, including 62 in sales and marketing, 22 in consulting and technical training, 30 in purchasing and distribution, 28 in administration and accounting and 8 part-time employees.

The Company is not a party to any collective bargaining agreements with its employees, has experienced no work stoppages and considers its relations with its employees to be satisfactory.

COMPETITION

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

Although many of the Company's competitors have greater financial resources

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

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The software distribution industry is undergoing significant change and consolidation. Software distributors are consolidating operations and acquiring or merging with other distributors or retailers to achieve economies of scale and increased efficiency. During 1996, the Company acquired its principle competitor within the catalog industry-The Programmer's Supershop catalog and related operations. One of the primary benefits of the transaction was the economies of scale as the Company was able to absorb the entire operations of The Programmer's Supershop within its existing location while substantially reducing overhead run rates.

The current consolidation trend could cause the industry to become even more competitive and make it more difficult for the Company to maintain its operating margins. The manner in which software products are distributed and sold is also changing, and new methods of distribution and sale may emerge or expand. Software developers and publishers have sold, and may intensify their efforts to sell, their products directly to end-users. The emergence of the Internet as a viable platform in which to conduct business transactions has both lowered the barriers for competition and broadened customers access to products and information. This transition has heightened the Company's awareness to maintain a competitive edge in this market. From time to time certain developers and publishers have instituted programs for the direct sale of large order quantities of software to certain major corporate accounts. These types of programs may continue to be developed and used by various developers and publishers. While Microsoft and other vendors currently sell their update products directly to end users, they have not attempted to completely bypass the reseller channel. Future efforts by such entities to bypass third-party sales channels could materially and adversely affect the Company's operations.

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

SALES TAX AND REGULATORY MATTERS

The Company believes that it is presently required to collect sales tax on sales of products through its catalogs to residents of New Jersey. Various states have sought to impose on direct marketers the burden of collecting state sales tax on the sale of products shipped to that state's residents. The United States Supreme Court has ruled that the various states, absent congressional legislation, may not impose tax collection obligations on an out-of-state mail order company whose only contact with the taxing state is the distribution of catalogs and other advertisement materials through the mail and whose subsequent delivery of purchased goods is by U.S. mail or interstate common carrier. If legislation is ultimately enacted to overturn such decision, or state courts otherwise impose a duty to collect sales or use tax, imposition of a tax collection obligation on the Company in states to which it ships products may result in additional administrative expenses to the Company and price increases to its customers.

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

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with potentially burdensome regulations concerning the solicitation of consents to keep or add customer names to its mailing lists.

The direct response business is subject to the Mail or Telephone Order Merchandise Rule and related regulations promulgated by the Federal Trade Commission. While the Company believes it is in compliance with such regulations and has implemented programs and systems to assure its ongoing compliance with such regulations, no assurance can be given that new laws or regulations will

not be enacted or adopted which might adversely affect the Company's operations.

SEASONALITY

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

ITEM 2 PROPERTIES.

At of December 31, 1997, the Company leased 15,000 square feet of space for its offices on the first floor at 1163 Shrewsbury Avenue, Shrewsbury, New Jersey and an additional 9,103 square feet of space at an adjacent property. Both leases are presently on a month to month basis while the Company's landlord completes construction of a new 18,000 square foot facility for the Company adjacent to the present facility at 1163 Shrewsbury Avenue. The Company anticipates occupancy during 1998 at which time it will retain approximately 6,000 square feet of warehouse space in its present location. Basic monthly rent payments amount to approximately \$22,000. Additionally, the Company also leases approximately 3,584 square feet of office space under a three-year lease in Mississauga, Canada that calls for monthly rental payments in the amount of \$1,750. The Company's European facilities, all of which are leased under long term arrangements, are as follows: 17,890 square feet in Munich, Germany, 8,600 square feet in Milan, Italy, 3,100 square feet in London, England, 6,200 square feet in Amsterdam, the Netherlands and 9,174 square feet in Paris, France. Total annual rent expense for the European facilities is approximately \$733,000. See Note 9 to the Consolidated Financial Statements.

ITEM 3 LEGAL PROCEEDINGS.

There are no material legal proceedings pending against the Company or any of its subsidiaries.

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

Not applicable.

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ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY.

The executive officers of the Company are as follows:

Name	Age	Position
Roger Paradis	53	President, Chief Executive Officer and Chairman of the Board
Joseph V. Popolo	61	Executive Vice President - USA Operations and Secretary
Peter W. Lorenz	49	Executive Vice President- European Operations
John P. Broderick	48	Chief Financial Officer, Vice President- Finance and Treasurer
Peter Lindsey	46	Vice President European Catalogs
Jeffrey Largiader	41	Vice President - Catalog Operations and Marketing Development
Kathleen Innacelli	37	Vice President - Fulfillment Operations

ROGER PARADIS has served as the President, Chief Executive Officer and a director of the Company since 1988. During 1996, he was also appointed as Chairman of the Board of Directors. Prior to joining the Company, he was President of Amerinex Corporation, a private venture capital firm in Saddle Brook, New Jersey.

JOSEPH V. POPOLO has served as the Company's Executive Vice President - Operations since joining the Company in January 1995. From 1977 to 1985, he was the President of MISCO, a computer products cataloger. From 1985 until joining the Company, Mr. Popolo was an independent consultant to corporations desiring to expand or build business-to-business catalog operations. Mr. Popolo has served as a consultant to Catalog Age magazine and is the founder and a charter member of the Direct Marketing Association's International Council.

PETER W. LORENZ has served as the Managing Director of ISP*D since its inception in 1989 and joined the Company in June 1994 at the time of the acquisition of ISP*D by the Company. Since January 1995, he has served as Executive Vice

President- European Operations. Mr. Lorenz is a founding member of the German Software Association, and was its chairman from 1987 until 1990. He currently is a member of the Board of Directors of the Software Publishing Association (SPA), Europe.

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

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PETER LINDSEY has served as the Company's Vice President of European Catalogs since 1997 and joined the company in December 1995 at the time of the acquisition of Systematika Ltd.. Mr. Lindsey was the founder of Systematika Ltd. in 1982 and introduced the first full color catalog for developer tools in the UK.

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

KATHLEEN INNACELLI has served as the Vice President - Fulfillment Operations of the Company since 1993 and is responsible for purchasing and warehouse operations. From 1990 through 1993, Ms. Innacelli held the position of Manager of Purchasing and was the Vice President - Telesales and Client Services of the Company. Prior to that and since 1983 held other positions with the Company and Lifeboat Associates.

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PART II

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

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

	High	Low
1995		
Third Quarter	12 3/8	10 1/2
Fourth Quarter	10 1/2	6 3/4
1996		
First Quarter	7	5 1/4
Second Quarter	7 3/8	4 7/8
Third Quarter	6 3/4	5 1/4
Fourth Quarter	7 1/2	5
1997		
First Quarter	8 1/4	6 7/8
Second Quarter	10 1/4	6 1/4
Third Quarter	13 1/4	9
Fourth Quarter	13 3/4	7 1/4

During 1997, 31,065 shares of the Common Stock were issued to employees, former employees and directors of the Company, pursuant to the exercise of incentive stock options granted to them prior to such year under the Company's stock option plans. Such shares were issued pursuant to Rule 701 promulgated under the Securities Act of 1933, at a weighted average exercise price of \$1.60.

HOLDERS OF COMMON STOCK

On March 20, 1998, 4,824,498 shares of the Company's Common Stock were outstanding. On such date, there were approximately 74 holders of record.

DIVIDENDS

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

ITEM 6 SELECTED FINANCIAL DATA.

The following is a summary of selected financial data of the Company for each of the five years ended on the dates set forth below, which should be read in conjunction with the financial statements of the Company and the notes thereto:

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SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth, selected consolidated financial data for the Company for the five years ended December 31, 1997. The selected consolidated financial data for the five years are derived from the Company's audited consolidated financial statements. The consolidated financial data set forth below should be read in conjunction with the Company's Consolidated Financial Statements and related Notes and "Management's Discussion and Analysis of Results of Operations and Financial Condition" contained herein.

<TABLE>

(In thousands, except per share data)

	YEAR ENDED DECEMBER 31				
	1993	1994	1995	1996	1997
	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA (1):					
Net sales	\$45,032	\$71,334	\$93,286	\$127,680	\$176,157
Income from operations	838	1,370	2,275	2,936	6,217
Income before minority interest	263	1,095	4,203	2,199	3,964
Net income	239	1,050	4,203	2,298	3,964
Basic net income per common share	\$0.10	\$0.45	\$1.14	\$0.48	\$0.84
	=====	=====	=====	=====	=====
Diluted net income per common share	\$0.10	\$0.35	\$1.03	\$0.44	\$0.75
	=====	=====	=====	=====	=====
Weighted average common shares outstanding-basic	2,354	2,354	3,703	4,764	4,740
Weighted average common shares outstanding-diluted	2,887	3,142	4,102	5,198	5,280
BALANCE SHEET DATA:					
Working capital	\$ 1,950	\$ 2,731	\$21,689	\$12,415	\$16,077
Total assets	11,714	24,730	58,329	68,490	86,368
Short-term debt	3,303	3,489	2,469	1,135	958
Long-term debt	--	--	--	1,050	2,220
Redeemable preferred stock and Stockholders' equity	3,379	4,597	26,989	28,844	32,213

</TABLE>

(1) Comparability of the Statement of Operations is affected by acquisitions occurring throughout the periods presented. See Note 2 to the Consolidated Financial Statements. (2) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128.

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

The Company is a distributor of software, operating through three distribution channels - cataloging, corporate reseller and wholesale operations. Catalog operations include worldwide catalog sales, advertising and publishing. Corporate reseller operations include ISP-USA, in the United States and ISP*D International Software Partners GmbH ("ISP*D") in Munich, Germany, wholly-owned subsidiaries of the Company, ISP*F International Software Partners France ("ISP*F"), a majority-owned company located in Paris, France and Logicsoft Holding BV, a recently acquired and wholly-owned subsidiary located in Amsterdam, The Netherlands. Wholesale operations include distributions

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to dealers and large resellers through Lifeboat Distribution Inc. in the U.S. and Lifeboat Associates Italia Srl ("Lifeboat Italy") in Milan, Italy, also subsidiaries of the Company.

The Company was founded in 1982 as a wholesaler and reseller of educational software. In June 1986, the Company acquired Lifeboat Associates, a wholesale distributor and publisher of software founded in 1976. Later in 1986, Programmer's Paradise was started by the Company as a catalog marketer of

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

The Company began European-based operations in the first quarter of 1993, when it acquired a controlling interest in Lifeboat Italy, a long-standing software distributor in Italy. In January and April 1994, the Company purchased the remaining ownership interest in Lifeboat Italy. In June 1994, the Company acquired a 90% controlling interest in ISP*D, a large software-only dealer and a leading independent supplier of Microsoft Select licenses and other software to many large German and Austrian companies. In January 1995, the remaining 10% interest in ISP*D was purchased by the Company. In late 1994, the Company organized a subsidiary in the United Kingdom to engage in catalog operations. In December 1995, the Company acquired Systematika Ltd., a leading reseller of technical software in the United Kingdom and the publisher of the popular System Science catalog. In January 1996, the Company formed ISP*F International Software Partners France SA ("ISP*F"), as a full service corporate reseller of PC software, based in Paris and majority owned by Programmer's Paradise France SARL. In September 1997, the Company announced that it had acquired Logicsoft Holding BV, the parent company of Logicsoft Europe BV, the predominate LAR in the Benelux territory. The Company is using its European-based operations as a platform for pan-European business development, including the distribution of local versions of its catalogs.

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

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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:

<TABLE>

<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31,			% Change	
	% to Net Sales				
	1995	1996	1997	96 v 95	97 v 96
<S>	<C>	<C>	<C>	<C>	<C>
Net Sales	100.0%	100.0%	100.0%		
Cost of Sales	84.4%	83.8%	85.4%		
Gross Profit	15.6%	16.2%	14.6%	0.6%	(1.6%)
Selling, general and administrative expenses	13.1%	13.5%	10.6%	0.4%	(2.9%)
Amortization of goodwill	0.1%	0.4%	0.5%	0.3%	0.1%
Income from operations	2.4%	2.3%	3.5%	(0.1%)	1.2%
Interest (income), expense net	(0.3%)	(0.2%)	(0.1%)	0.1%	(0.1%)
Income before taxes	2.7%	2.5%	3.6%	(0.2%)	1.1%
Income tax benefit (provision)	1.9%	(0.8%)	(1.4%)	(2.7%)	0.6%
Minority interest (loss)		(0.1%)		(0.1%)	0.1%
Net Income	4.6%	1.8%	2.2%	(2.8%)	0.4%

</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 of the Company increased by \$48.5 million or 38%, to \$176.2 million in 1997 and by \$34.4 million, or 37%, to \$127.7 million in 1996 as compared to the respective preceding periods. The increase in revenues in 1997 resulted from a combination of the growth of the catalog and corporate reseller channels as well as growth through acquisitions. Revenues within the catalog channel increased 19% or \$11.3 million in 1997, the majority of which was incurred in the United States and reflects the full year impact of the acquisition of The Programmer's Supershop acquired in June 1996 as well as the

introduction and development of the Company's newest segmented catalog: NT Supershop. Domestic catalog circulation increased by approximately 1.7 million catalog drops reflecting the growth of the Company's five catalog offerings. Revenues within the corporate reseller channel increased 66% in 1997 primarily resulting from a significant increase in the amount of German and Austrian reseller customers as well as the acquisition of Logicsoft Holding BV in September 1997. Revenues within Germany and Austria increased by approximately 47% over 1996 while revenues in the United Kingdom increased by 26% over 1996. The increase in revenues reflects an increase in market share and is directly attributable to the value-added services and pan-European capabilities being delivered by the group.

The growth in net sales in 1996 resulted from market share growth in both the catalog and reseller channels as well as the acquisition of The Programmer's Supershop in June 1996. Revenues within the catalog channel increased 65% or \$23.2 million primarily as a result of the acquisition of The Programmer's Supershop as well as the full year impact of the acquisition of Systematika Limited, a London based direct marketer in the technical software industry in December 1995. Domestic catalog circulation increased by approximately 800,000 catalog drops without the addition of The

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Programmer's Supershop in 1996 as the Company introduced two new segmented catalogs: Components Paradise launched in March 1996 and Internet Paradise, launched in May 1996. Revenues within the corporate reseller channel increased 26.4% in 1996 primarily stemming from market share growth in the German and Austrian markets as well as from the positive impact of forming the French reseller, ISP*F.

GROSS PROFIT

Gross profit represents the difference between net sales and cost of sales. Cost of sales is composed primarily of amounts paid by the Company to publishers and vendors plus catalog printing and mailing costs. Publisher and vendor rebates are credited against costs of sales. Gross Profit as a percentage of net sales decreased by 1.6% in 1997 from 16.2% to 14.6% reflecting a shift in the mix of sales through the Company's distribution channels as a result of the substantial increase in lower margin corporate resales and Microsoft Select licensing sales. The acquisition of Logicsoft Holding BV was an instrumental factor in the overall shift of the revenue mix by increasing lower margin corporate resales. Gross profit as a percentage of sales increased by 0.6% in 1996 from 15.6% to 16.2% primarily from increased revenues within the catalog channel stemming from the acquisition of The Programmer's Supershop as well as the full year effect of the acquisition of Systematika Ltd. During 1996, the Company was able to enhance its gross margins within the catalog channel by raising both product pricing and advertising rates in order that its primary catalogs, Programmer's Paradise and Programmer's Supershop be on parity.

In the past, gross margins have been affected by the mix of products sold and the mix of distribution channels. Historically, the gross margins attained in the catalog channel have been higher than either the corporate reseller or distribution channels. In 1997, catalog operations contributed approximately 40% of revenue and approximately 59% of gross margin dollars as compared with 46% of revenue and 62% of gross margin dollars in 1996 and 38% of revenue and 53% of gross margin dollars in 1995. Corporate reseller operations contributed approximately 51% of revenue and approximately 32% of gross margin dollars in 1997 and 43% of revenue and 26% of gross margin dollars in 1996 as compared to 46% of revenue and 32% of gross margin dollars in 1995. The distribution channel contributed approximately 9% of revenue and approximately 9% of gross margin dollars in 1997 compared with 11% of revenue and 12% of margin dollars in 1996 and 16% of revenue and 15% of margin dollars in 1995.

The historically higher margins attained in the catalog channel are related to both the product focus on technical software, including numerous specialized products, and on the relatively fragmented customer base of the catalog channel, in comparison to the corporate reseller channel, which primarily serves large corporations purchasing high volumes of widely available business applications. In the future, the Company's gross margins will be affected by several factors, including, among others, the price of products sold, the distribution channel used, increases in product costs, price competition and the introduction of new products.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses include all corporate personnel costs (including salaries and health benefits), depreciation and amortization, non-personnel-related marketing and administrative costs and provision for doubtful accounts. Depreciation and amortization consists primarily of equipment depreciation and leasehold amortization. SG&A expenses have increased as a percentage of revenues from 13.1% in 1995 to 13.5% in 1996 and then decreased to 10.6% of net revenues in 1996. The increase in SG&A expense as a percentage of revenues in 1996 is attributable to the abnormally high overheads incurred with the start-up of the French corporate reseller operation.

The French corporate reseller operation required mid-year restructuring which involved the separation and payment of severance for several employees. The decline in SG&A expense as a percentage of revenues in 1997 is attributable to the increase in revenues in the reseller channel, which has generally lower SG&A costs as a percentage of revenue and also the impact of the acquisition of Logisoft Holding BV. Each year SG&A has increased in absolute dollars, reflecting the cost of operations of the Company's acquisitions such as the Programmer's Supershop, Systematika Ltd., ISP*D and most recently, Logisoft Holding BV. The Company does anticipate that SG&A as a percentage of revenues will continue to decline as revenues continue to grow and cost containment directives remain in place, however, there can be no assurances that this will occur.

Geographically, the domestic operations of the Company accounted for approximately 50% of total SG&A expenditures while the European operations accounted for approximately 50%. This represents an increase from 1996 where domestic SG&A expenditures accounted for approximately 47% of total consolidated expenditures.

AMORTIZATION

Amortization expense includes the systematic write-off of goodwill. The Company incurred goodwill with the acquisition of both ISP*D and Lifeboat Italia which it is amortizing over 20 years. In addition, the Company recorded goodwill in conjunction with the acquisition of both Systematika Ltd. and ISP*F International Software Partners France. The Company recognized approximately \$9.5 million in goodwill from the acquisition of the assets of The Software Developer's Company, Inc. in June 1996 which is being amortizing over a fifteen year period for both financial and tax accounting purposes. In connection with the acquisition of Logisoft Holding BV, the Company recognized approximately \$2.4 million in goodwill, which is being amortized over a fifteen-year period.

INTEREST INCOME AND EXPENSE

The Company generated net interest income of approximately \$212,000, \$223,000 and \$250,000 in 1997, 1996 and 1995 respectively. Net interest income in 1997 was offset by the interest charge under the term-loan financing for the acquisition of Logisoft Holding BV. Overall interest income for 1996 was negatively impacted by the utilization of cash to finance the acquisitions of ISP*F and The Software Developer's Company, Inc.

MINORITY INTEREST

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

INCOME TAXES

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

Statement of Financial Accounting Standards No. 109 requires that a valuation allowance be recorded for deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends upon the existence of future taxable income. The Company had previously recorded a tax valuation allowance in accordance with SFAS No. 109. As a result of its recent history of carryforward utilization and projected future taxable income, the Company has reduced the tax valuation allowance by approximately \$3.1 million in 1995.

At December 31, 1997, the Company recorded a provision for income taxes of approximately \$2.4 million, which consists of a provision for state and, federal taxes of approximately \$2.35 million and also a provision for foreign taxes of approximately \$54,000. At December 31, 1996, the Company recorded a provision for income taxes of approximately \$991,000 which consists of a provision for state and federal taxes of approximately \$1.3 million offset by a reduction in the tax valuation allowance of approximately \$350,000 associated with prior period losses of the German subsidiary. At December 31, 1995, benefit for income taxes amounted to approximately \$1.7 million, which consists of a reduction in the tax valuation allowance of approximately \$3.1 million offset primarily by

provisions for local and foreign taxes of approximately \$1.4 million.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$2,900,000 and \$563,000 at December 31, 1997 and 1996, respectively. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided. Upon distribution of those earnings in the form of dividends, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to various foreign countries.

Assuming a 40% combined U.S. federal and state statutory tax rate and actual foreign tax rates, the income tax expense would have been approximately \$2,419,000, 915,000 and \$1,137,000 for the years 1997, 1996 and 1995, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital needs have been to fund the working capital requirements created by its sales growth and to make acquisitions. Historically, the Company's primary sources of financing have been borrowings under its domestic and international lines of credit with financial institutions and the issuance of preferred stock to private investors, financial institutions and investment funds. In July 1995, the Company completed an initial public offering of its common stock, which resulted in net proceeds to the Company of approximately \$18 million.

Cash flows from operations were approximately \$6,196,000 for the year ended December 31, 1997 compared to \$1,166,000 and \$9,211,000 for 1996 and 1995, respectively. In 1997, cash was provided primarily by the net income of the Company and by a reduction in inventories and an increase in accounts payable, reflecting the increase in Microsoft Select business and related amounts payable but not yet due to Microsoft, offset by an increase in accounts receivable, reflecting strong fourth quarter sales. Cash flows from operations for 1996 were also provided by the net income of the Company and by similar reductions in inventory and increases in amounts payable but not yet due to Microsoft. In addition, cash flows from operations for 1996 were negatively impacted by the losses generated by the operations of ISP*F, the French corporate reseller and a DSO in France that is unusually long in comparison to other entities within the Company. For 1995, in addition to the proceeds received from the IPO which were used to reduce debt and invest in short term securities, cash flow was primarily provided by net income of the Company and by an increase in accounts payable, offset by an increase of accounts receivable and an increase in inventories.

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At December 31, 1997, the Company had cash and cash equivalents of \$20.6 million and net working capital of \$16.1 million compared with cash and cash equivalents of \$16.3 million and net working capital of \$12.4 million at

December 31, 1996 compared with cash and cash equivalents and net working capital of \$27.7 million and \$21.7 million respectively, at December 31, 1995. The increase in working capital at December 31, 1997 is attributable to the earnings for the year then ended as well as the effect of the working capital acquired as part of the acquisition of Logicsoft Holding BV. The decrease in working capital at December 31, 1996 is primarily attributable to the acquisition of the assets of The Software Developer's Company, Inc., in June, 1996 as well as ISP*F in January, 1996. Under the terms of the purchase, the Company paid \$11,000,000 cash for the assets of The Software Developer's Company, Inc. and in return were to receive approximately \$1,500,000 in net assets.

The Company's capital expenditures for 1997 and 1996 amounted to approximately \$718,000 and \$517,000, respectively, primarily for computer hardware and software, office furniture and leasehold improvements. In addition, in 1997, the Company acquired approximately \$187,000 of assets as part of the acquisition of Logicsoft Holding BV. In 1996, the Company acquired approximately \$625,000 of assets, as part of the acquisition of the Software Developers Company primarily comprised of computer systems and furniture.

Domestically, the Company has a secured, demand revolving line of credit, pursuant to which the Company may borrow up to \$4.0 million, based upon 80% of its eligible accounts receivable plus 50% of its eligible inventory, at a rate of interest of prime plus .50%. The credit facility is secured by all of the domestic assets of the Company and contains certain covenants that require the Company to maintain a minimum level of tangible net worth and working capital. There were no amounts outstanding under the line at December 31, 1997. Subsequent to the end of the year, the Company renegotiated its facility agreement, whereby the Company can borrow up to \$7.5 million under a committed line of credit with interest at either the prime rate or Euro-rate plus 200 basis points. The new 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.

During the year, 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.

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 \$830,000 at December 31, 1997), 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 \$165,000 at December 31, 1997). The line bears interest at 8.25%. At December 31, 1997, there were no amounts outstanding under the line. A subsidiary of ISP*D has a secured term loan with the same bank, in the original principal amount of DM 1,000,000 (the equivalent of approximately \$645,000 at December 31, 1996), which was paid in full in March 1997.

In Italy, Lifeboat Italy has banking arrangements with several Italian banks, pursuant to which it may borrow in lire on an unsecured, demand basis to finance working capital requirements, through credit and overdrafting privileges, as well as receivables-based advances. The aggregate credit and overdraft limits of such arrangements at December 31, 1997 and 1996 were approximately Lit 3,300,000,000 and 3,200,0000 respectively. (the equivalent of approximately \$1.9 million and \$2.0

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million at December 31, 1997 and 1996). At December 31, 1997 and 1996, 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 \$1.23 million at December 31, 1997), and is secured by its accounts receivable and inventory. The line bears interest at 5.875%. There were no amounts outstanding under the line at December 31, 1997.

In France, ISP*F maintains a demand revolving line of credit pursuant to which it may borrow up to FRF 5.0 million (the equivalent of approximately \$830,000 at December 31, 1997), and is secured by its accounts receivable and inventory and a FRF 3.0 million letter of credit. At December 31, 1997, FRF 2,165,000 (the equivalent of approximately \$360,000 at December 31, 1997) of the line of credit was utilized bearing interest at 7.00%.

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.

IMPACT OF YEAR 2000

The Company presently believes that with minor modifications to existing operating systems, the Year 2000 Issue will not pose significant operational problems for its computer systems. The Company believes the costs for these modifications to be minimal.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

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

Not applicable.

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PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

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

ITEM 11 EXECUTIVE COMPENSATION.

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

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

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

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

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PART IV

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

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

1. CONSOLIDATED FINANCIAL STATEMENTS:

Index to Consolidated Financial Statements and Schedules
Report of Independent Auditors
Consolidated Balance Sheets - as of
December 31, 1996 and December 31, 1997
Consolidated Statements of Income - Years
ended December 31, 1995, December 31, 1996 and
December 31, 1997
Consolidated Statement of Stockholders' Equity Years ended
December 31, 1995, December 31, 1996 and December 31,
1997
Consolidated Statements of Cash Flows - Years ended December
31, 1995, December 31, 1996 and December 31, 1997
Notes to Consolidated Financial Statements

2. FINANCIAL STATEMENT SCHEDULE:

Schedule II Valuation and Qualifying Accounts

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

3. EXHIBITS:

Exhibit Number -----	Description of Exhibits. -----
3.1	Form of Amended and Restated Certificate of Incorporation of the Company.*
3.2	Form of Amended and Restated By-Laws of the Company.*
4.1	Specimen of Common Stock Certificate.*
10.2	Amended and Restated Revolving Loan and Security Agreement, dated as of March 4, 1993, between Midlantic National Bank and the Company together with Revolving Loan Note; First Amendment to Amended and Restated Revolving Loan and Security Agreement, dated as of March 4, 1993, between Midlantic National Bank and the Company, Corsoft, Inc. and Lifeboat together with First Allonge to Revolving Loan Note; Consent of Midlantic National Bank.*

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10.3 ISP*D Loan Agreements.*

10.4 Lifeboat Italy Loan Agreement.*

- 10.5 Lease, dated as of August 27, 1987, by and between Robert C. Baker, Robert C. Baker, Trustee under Trust Agreement dated March 15, 1984 for the Benefit of Ashley S. Baker, Gerald H. Baker, Harvey B. Oshins, Baker 1985 Family Partnership, Gregory J. Stepic and John G. Orrico ("Landlord") and Computer Library, Inc., and First Modification of Lease, dated as of April 24, 1991, between Landlord and the Company.*
- 10.6 ISP*D Office Lease.*
- 10.7 Lifeboat Italy Office Lease.*
- 10.8 Agreement dated as of December 29, 1994, between Lifeboat Publishing and Software Garden, Inc.; License for Trademark "Dan Bricklin", dated as of December 29, 1994, between the Company and Daniel Bricklin; First Amendment to Software License Agreement and Trademark License Agreement dated March 30, 1995.*
- 10.9 Employment Letter with Roger Paradis dated as of May 24, 1995.*
- 10.11 Employment Letter with Joseph V. Popolo dated as of December 16, 1994.*
- 10.12 Employment Letter with John P. Broderick dated as of May 10, 1995.*
- 10.13 Employment Letter with Massimo Freschi dated as of June 18, 1992.*
- 10.14 Employment Letter with Frederick W. Schmidt dated as of January 19, 1994.*
- 10.15 Form of Confidentiality and Non-Compete Agreement.*
- 10.16 Employment Agreement dated as of May 26, 1994, between Peter Lorenz, ISP*D and the Company.*
- 10.17 1986 Stock Option Plan and Form of Employee Stock Option Agreement.*
- 10.18 1995 Stock Plan.*
- 10.19 1995 Non-Employee Director Plan.*
- 10.20 Form of Officer and Director Indemnification Agreement.*
- 10.21 Registration Rights Agreement dated as of May , 1988.*
- 10.22 Agreement, dated December 19, 1995, by and between Programmer's Paradise (UK) Limited and the former shareholders of Systematika Limited, as supplemented by a letter agreement dated December 19, 1995 between Peter Lindsey and Programmer's Paradise (UK) Limited.+
- 10.23 Employment Agreement dated December 19, 1995 between Peter Lindsey and Systematika Limited.+

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- 10.24 Share Sale Agreement dated December 29, 1995 between Raphael and Rosario Perez and Programmer's Paradise France relating to Logiciels & Applications SA. ++
- 10.25 Shareholders' Agreement dated December 29, 1995 between Raphael Perez, Softway, Inc., Selsid and Programmer's Paradise France relating to Logiciels & Applications SA. ++
- 10.26 Warranty Agreement dated January 18, 1996 by and among Raphael Perez, Rosario Perez and Programmer's Paradise France relating to Logiciels & Applications SA. ++
- 10.27 Share Sale Agreement Amendment Agreement dated January 18, 1996 Relating to Logiciels & Applications by and among Raphael Perez, Rosario Perez and Programmer's Paradise France. ++
- 10.28 Call Option Agreement dated January 18, 1996 between Raphael Perez and Programmer's Paradise France. ++
- 10.29 Side Agreement dated January 18, 1996 to Call Option Agreement dated January 18, 1996 between Raphael Perez and Programmer's Paradise France. ++
- 10.30 Call Option Agreement dated January 18, 1996 by and among Softway, Inc., Selsid and Programmer's Paradise France. ++ 10.31 Employment Agreement dated January 22, 1996 between Raphael Perez and Logiciels Et Applications. ++
- 10.32 Agreement of Purchase and Sales of Assets, dated as of May 16, 1996, between the Registrant and the Selling Parties, and the exhibits thereto. **
- 10.33 Bill of Sale, dated as of June 28, 1996, executed by the Selling

Parties.**

- 10.34 Facilities and Employee Use Agreement, dated as of June 28, 1996, between the Registrant and SDC.**
- 10.35 Closing Statement, dated as of June 28, 1996, between the Registrant and the Selling Parties**
- 10.36 Letter Agreement regarding the Acquisition of Stock of SDEV Germany, dated as of June 28, 1996, between the Registrant and the Selling Parties.**
- 10.37 Stock Acquisition Escrow Agreement, dated as of June 28, 1996, between the Registrant, the Selling Parties and Golenbock, Eiseman, Assor & Bell, as escrow agent.**
- 10.38 Consent of Independent Auditors**
- 21.1 Subsidiaries of the Registrant.*
- 24.1 Powers of Attorney.*
- (b) Reports on Form 8-K.

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

The Company filed a Report on Form 8-K on January 2, 1996 and filed an amendment thereto on Form 8-KA on March 4, 1996, with respect to the acquisition of the stock of Systematika Limited, an English corporation, by Programmer's Paradise (UK) Limited (See Item 1). The Company

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also filed a Report on Form 8-K on July 19, 1996 and filed an amendment thereto on Form 8-KA on September 16, 1996, with respect to the acquisition of substantially all of the assets of Software Developers Company, Inc.

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in Shrewsbury, New Jersey, on March 27, 1998.

PROGRAMMER'S PARADISE, INC.

By:

Roger Paradis, President

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

<TABLE>
<CAPTION>

<S>	SIGNATURE	TITLE	DATE
	----- Roger Paradis	Chief Executive Officer and Chairman of the Board of Directors	March 27, 1998

----- John P. Broderick	Chief Financial and Accounting Officer	March 27, 1998
----- Edwin H. Morgens	Director	March 27, 1998
----- Allan Weingarten	Director	March 27, 1998
----- Daniel S. Bricklin	Director	March 27, 1998
----- F. Duffield Meyercord	Director	March 27, 1998
----- William Willett	Director	March 27, 1998

</TABLE>

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PROGRAMMER'S PARADISE, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Programmer's Paradise, Inc. and subsidiaries as of December 31, 1996 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. Our audits also included the financial statement schedule listed in the Index of Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Programmer's Paradise, Inc. and subsidiaries at December 31, 1996 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth herein.

Programmer's Paradise, Inc. and Subsidiaries
Consolidated Balance Sheets

(In thousands, except share amounts)

<TABLE>

<CAPTION>

	DECEMBER 31	
	1996	1997
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$16,281	\$20,571
Accounts receivable, net of allowances of \$583 and \$509 in 1996 and 1997, respectively	26,826	38,517
Inventory	4,464	4,627
Prepaid expenses and other current assets	2,227	2,561
Deferred income taxes	1,097	1,619
Total current assets	50,895	67,895
Equipment and leasehold improvements, net	1,695	1,862
Goodwill, net of accumulated amortization of \$690 and \$1,600 in 1996 and 1997, respectively	12,768	14,185
Other assets	912	707
Deferred income taxes	2,220	1,719
	\$68,490	\$86,368
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$35,041	\$46,979
Notes payable to banks	1,135	958
Other current liabilities	2,303	3,881
Total current liabilities	38,479	51,818
Other liabilities	116	117
Notes payable - Long-term	1,050	2,220
Stockholders' equity:		
Common Stock \$.01 par value: Authorized, 10,000,000 shares, issued 4,762,220 and 4,793,295 in 1996 and 1997, respectively	48	48
Additional paid-in capital	33,509	33,633
Treasury stock, at cost, 65,000 and 59,500 shares in 1996 and 1997, respectively	(375)	(343)
Accumulated deficit	(4,220)	(256)
Cumulative foreign currency translation adjustment	(117)	(869)
Total stockholders' equity	28,845	32,213
	\$68,490	\$86,368
=====		

</TABLE>

See accompanying notes.

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

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31		
	1995	1996	1997
<S>	<C>	<C>	<C>
Net sales	\$93,286	\$127,680	\$176,157
Cost of sales	78,717	107,041	150,452
Gross profit	14,569	20,639	25,705
Selling, general and administrative expenses	12,195	17,230	18,574
Amortization of goodwill	99	473	914

Income from operations	2,275	2,936	6,217
Other (expense) income:			
Interest expense	(265)	(373)	(326)
Interest income	515	596	538
Unrealized foreign exchange (loss) gain	(49)	31	(58)
Income before income taxes and minority interest	2,476	3,190	6,371
Income tax (benefit) provision	(1,727)	991	2,407
Income before minority interest	4,203	2,199	3,964
Minority interest in net income of subsidiary		99	
Net income	\$ 4,203	\$ 2,298	\$ 3,964
Basic net income per common share	\$ 1.14	\$.48	\$.84
Diluted net income per common share	\$ 1.03	\$.44	\$.75
Weighted average common shares outstanding-Basic	3,703	4,764	4,740
Weighted average common shares outstanding-Diluted	4,102	5,198	5,280

See accompanying notes.

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

<TABLE>
<CAPTION>

ACCUMULATED DEFICIT	NON-CUMULATIVE REDEEMABLE CONVERTIBLE PREFERRED	COMMON STOCK		ADDITIONAL PAID-IN	TREASURY
	STOCK	SHARES	AMOUNT	CAPITAL	STOCK

<S>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1995	\$ 373	229,115	\$ 2	\$15,272	
\$ (10,721)					
Net income					
4,203					
Stock issued in ISP*D acquisition		165,000	2	108	
Conversion of Series A	(223)	1,674,071	17	(17)	
Conversion of Series B	(150)	450,690	4	(4)	
Exercise of stock options, including					
\$83,000 in income tax benefits		89,369	1	18	
Issuances of common stock in connection					
with initial public offering, net of					
expenses		2,070,000	21	18,028	
Translation adjustment					

Balance at December 31, 1995	-	4,678,245	47	33,405	
(6,518)					
Net income					
2,298					
Exercise of stock options, including					
\$86,000 in income tax benefits		83,975	1	104	
Purchase of 65,000 treasury stock shares					\$ (375)
Translation adjustment					

Balance at December 31, 1996	-	4,762,220	48	33,509	(375)
(4,220)					
Net income					
3,964					
Exercise of stock options, including					
\$65,000 in income tax benefits		31,075		124	32
Translation adjustment					

Balance at December 31, 1997		4,793,295	48	33,633	(343)
(256)					

</TABLE>

<TABLE>

<CAPTION>

	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL

<S>	<C>	<C>
Balance at January 1, 1995	44	\$ 4,597
Net income		4,203
Stock issued in ISP*D acquisition		110
Conversion of Series A		-
Conversion of Series B		-
Exercise of stock options, including \$83,000 in income tax benefits		19
Issuances of common stock in connection with initial public offering, net of expenses		18,049
Translation adjustment	11	11

Balance at December 31, 1995	55	26,989
Net income		2,298
Exercise of stock options, including \$86,000 in income tax benefits		105
Purchase of 65,000 treasury stock shares		(375)
Translation adjustment	(172)	(172)

Balance at December 31, 1996	(117)	28,845
Net income		3,964
Exercise of stock options, including \$65,000 in income tax benefits		156
Translation adjustment	(752)	(752)

Balance at December 31, 1997	(869)	32,213
=====		

</TABLE>

See accompanying notes.

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

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31		
	1995	1996	1997

<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 4,203	\$ 2,298	\$ 3,964
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest in net income of subsidiary		(99)	
Depreciation expense	375	701	736
Amortization expense	243	621	1,019
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,804)	(6,103)	(8,167)
Inventory	(1,717)	2,279	173
Prepaid expenses and other current assets	(678)	708	(85)
Accounts payable and accrued expenses	11,060	1,176	7,708
Deferred tax asset	(2,762)	49	(22)
Net change in other operating assets and liabilities	291	(464)	870

Net cash provided by operating activities	9,211	1,166	6,196
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment and leasehold improvements	(631)	(620)	(788)
Purchases of businesses, net of cash acquired	(1,447)	(11,236)	(2,268)

Net cash used in investing activities	(2,078)	(11,856)	(3,056)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments under lines of credit	(1,021)	(461)	(1,818)
Borrowings under long term debt			2,962
Repayments under long term debt			(150)
Purchase of treasury stock		(375)	
Net proceeds from issuance of common stock	18,068	105	156

Net cash provided by (used in) financing activities	17,047	(731)	1,150
Net increase (decrease) in cash and cash equivalents	24,180	(11,421)	4,290
Cash and cash equivalents at beginning of year	3,522	27,702	16,281
Cash and cash equivalents at end of year	\$ 27,702	\$ 16,281	\$ 20,571

</TABLE>

See accompanying notes.

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Programmer's Paradise, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 1997

1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION AND OPERATIONS

The consolidated financial statements include the accounts of Programmer's Paradise, Inc., its wholly-owned subsidiaries and, its majority-owned subsidiaries (the "Company"). The Company is a marketer of software for microcomputers, servers and networks, with a focus on providing software products, known as technical software, to people who design, program and support software, operating through three distribution channels-catalog, corporate reseller and wholesale distribution. All intercompany balances and transactions have been eliminated in consolidation.

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

BASIS OF PRESENTATION

Certain balances in the 1996 financial statements have been reclassified to conform with the current year presentation.

MAJOR CUSTOMER AND SUPPLIER

In 1995, 1996 and 1997 no single customer exceeded 10% of net sales.

The Company has authorized dealership or distribution agreements with various suppliers. Products of one of these suppliers accounted for approximately 46%, 47% and 55% of Company revenues for 1995, 1996 and 1997, respectively.

CASH AND CASH EQUIVALENTS

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

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the foreign subsidiaries, all of which are located in Europe, have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the year. Resulting cumulative translation adjustments have been recorded as a separate component of stockholders' equity.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

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

INVENTORY

Inventory, consisting primarily of finished products held for resale, is stated

at the lower of cost (weighted average) or market.

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

ACCOUNTING FOR LONG-LIVED ASSETS

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

GOODWILL

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

STOCK-BASED COMPENSATION

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

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

ADVERTISING COSTS

The Company capitalizes the advertising costs associated with producing its catalogs. The costs of these catalogs are amortized over the estimated shelf life of the catalogs, generally 3-5 months. The unamortized balance of non-reimbursed advertising costs at any period end are minimal. Advertising costs for 1995, 1996, and 1997 amounted to approximately \$3,320,000, \$5,571,000 and \$5,725,000, respectively.

NET INCOME PER COMMON SHARE

In 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share. Statement No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the Statement No. 128 requirements.

RECENT PRONOUNCEMENTS OF THE FINANCIAL ACCOUNTING STANDARDS BOARD

Recent pronouncements of the Financial Accounting Standards Board ("FASB") which are not required to be adopted at December 31, 1997, include the following Statements of Financial Accounting Standards ("SFAS"):

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and display of comprehensive (all changes in equity during a period except those resulting from investments by and distributions to owners) and its components in the financial statements. This new standard, which will be effective for the Company for the year ending December 31, 1998, is not currently anticipated to have a significant impact on the Company's financial statements.

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

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SFAS No 131, "Disclosure about Segments of an Enterprise and Related Information," which will be effective for the Company for the year ending December 31, 1998, establishes standards for reporting information about operating segments in the annual financial statements, selected information about operating segments in interim financial reports and disclosures about products and services, geographic areas and major customers. This new standard will require the Company to report financial information on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments, which may result in more detailed information in the notes to the Company's financial statements than is currently required and provided. The Company has not yet determined the effects, if any, of implementing SFAS No. 131 on its reporting of financial information.

2. ACQUISITIONS

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

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

In September 1997, the Company acquired 100% of the outstanding stock of Logicsoft Holding BV ("Logicsoft"), which operates Logicsoft Europe BV, located in Amsterdam, The Netherlands, at a cost of approximately \$3,300,000. Logicsoft is a corporate reseller of PC software in The Netherlands.

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

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

2. ACQUISITIONS (CONTINUED)

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

	1996	1997
Sales	\$169,072	\$192,351
Net income	3,640	4,011
Basic net income per common share	\$.76	\$.85
Diluted net income per common share	\$.70	\$.76

The pro forma amounts reflect amortization of the excess of purchase price over the net assets acquired, the reduction in operating expenses as a result of combining the operations, the reduction in interest income as a result of the utilization of cash and the related tax effect of these items. The pro forma results are not necessarily indicative of the results of operations that would have occurred had the acquisitions taken place at the beginning of the periods presented nor are they intended to be indicative of results that may occur in the future.

3. NOTES PAYABLE TO BANKS

Notes payable to banks represent borrowings under a U.S. revolving line of credit, the outstanding balance under a five year term loan and revolving lines of credit available at each of the Company's foreign subsidiaries.

The limit under the U.S. revolving line of credit is the lesser of \$4,000,000 or the sum of 80% of its eligible accounts receivable and 50% of its eligible inventory, as defined. The facility is due on demand and is secured by all of the domestic assets of the Company and contains certain covenants, which require the Company to maintain a minimum level of tangible net worth and working capital. The line of credit prohibits the payment of cash dividends and contains certain restrictions on the Company's ability to make loans or acquire interests in other entities without the prior consent of the lender. Advances under the domestic revolving line of credit bear interest at the bank's prime rate plus .50%, and are due on demand. The commitment fee on the unused portion of the line is .5% per annum. The bank's prime rate was 8.50% at December 31, 1997. There were no amounts outstanding under the line at December 31, 1997.

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

3. NOTES PAYABLE TO BANKS (CONTINUED)

Subsequent to the end of the year, the Company renegotiated the limit under the U.S. revolving line of credit whereby the Company can borrow up to \$7,500,000 under a committed line of credit with interest at either the prime rate or Euro-rate plus 200 basis points. The new facility expires on June 30, 1999 and is secured by all the domestic assets of the Company and 65% of the outstanding stock of the foreign subsidiaries and contains certain covenants that require the Company to maintain a minimum level of tangible net worth and working capital.

The 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 \$830,000 at December 31, 1997), based upon its eligible accounts receivable and inventory, and a limited guarantee by the Company of up to DM 300,000 (the equivalent of approximately \$165,000 at December 31, 1997). The line bears interest at 8.25%. At December 31, 1997 there were no amounts outstanding under the line. A subsidiary of ISP*D has a secured term loan with the same creditor, in the original amount of DM 1,000,000 (the equivalent of approximately \$645,000 at December 31, 1996), which was paid in full in March 1997.

In Italy, Lifeboat Italy has banking arrangements with several Italian banks, pursuant to which it may borrow in lire on an unsecured, demand basis to finance working capital requirements, through credit and overdrafting privileges, as well as receivables-based advances. The aggregate credit and overdrafting limits of such arrangements at December 31, 1997 and 1996 were approximately Lit 3,300,000,000 and 3,200,000,000 respectively, (the equivalent of approximately \$1.9 million and \$2.0 million at December 31, 1997 and 1996). The unsecured borrowings bear interest at market rates ranging from 6.25% to 9.00%. At December 31, 1997 and 1996, there were no amounts outstanding under the line.

The Company's subsidiary in The Netherlands, Logicsoft Europe, BV, maintains a demand revolving line of credit pursuant to which it may borrow in guilders up to DFL 2,500,000 (the equivalent of approximately \$1,230,000 at December 31, 1997), and is secured by its accounts receivable and inventory. The line bears interest at 5.875%. At December 31, 1997, there were no amounts outstanding under the line.

In France, ISP*F, maintains a demand revolving line of credit pursuant to which it may borrow up to FRF 5,000,000 (the equivalent of approximately \$830,000 at December 31, 1997), and is secured by its accounts receivable and inventory and a FRF 3,000,000 letter of credit. At December 31, 1997, FRF 2,165,000 (the equivalent of approximately \$360,000 at December 31, 1997) of the line of credit was utilized, bearing interest at 7.00%.

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

3. NOTES PAYABLE TO BANKS (CONTINUED)

In connection with the Logicsoft acquisition (see Note 2), the Company secured a five year term loan in the US \$ equivalent of approximately \$3,000,000. The term loan bears interest at 6.17% and principal and interest are payable quarterly. The loan is payable in Netherland guilders and had an outstanding balance at December 31, 1997 of \$2,812,731 (DFL 5,700,000), of which \$592,154 (DFL 1,200,000) is classified as current in the accompanying consolidated balance sheet. The term loan is secured by all assets of the Company and 65% of the outstanding stock of the foreign subsidiaries. Maturities under the term loan are as follows:

1998	\$592,154	(DFL 1,200,000)
1999	592,154	(DFL 1,200,000)
2000	592,154	(DFL 1,200,000)
2001	592,154	(DFL 1,200,000)
2002	444,115	(DFL 900,000)

The weighted average interest rate for notes payable to banks and long term debt was 12.80%, 10.10% and 8.00% at December 31, 1995, 1996 and 1997, respectively.

Interest paid was approximately \$290,000, \$343,000 and \$260,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

4. BALANCE SHEET DETAILS

Equipment and leasehold improvements consists of the following (dollars in

thousands)

<TABLE>
<CAPTION>

	1996	1997
<S>	<C>	<C>
Equipment	\$ 2,967	\$ 3,576
Leasehold improvements	295	337
	3,262	3,913
	(1,567)	(2,051)
Less accumulated depreciation and amortization		
	\$ 1,695	\$ 1,862

</TABLE>

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

<TABLE>
<CAPTION>

	1996	1997
<S>	<C>	<C>
Trade accounts payable	\$11,002	\$11,937
Accrued licensing costs	19,038	30,810
Other accrued expenses	5,001	4,232
	\$35,041	\$46,979

</TABLE>

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

5. INCOME TAXES

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

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31		
	1995	1996	1997
Current:			
<S>	<C>	<C>	<C>
Federal	\$ 446	\$ 502	\$ 984
State	276	275	386
Foreign	313	165	1,058
	1,035	942	2,428
Deferred:			
Federal	(2,760)	473	76
State	(2)	30	(54)
Foreign		(454)	(43)
	(2,762)	49	(21)
	\$ (1,727)	\$ 991	\$ 2,407

</TABLE>

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

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31		
	1995	1996	1997
<S>	<C>	<C>	<C>
Statutory rate applied to pretax income	\$ 842	\$ 1,084	\$ 2,166
Amortization of goodwill	33	39	40
State income taxes, net of benefit of federal income taxes	181	211	219
Foreign income taxes (benefit) over U.S. statutory rate	271	(350)	54
Net reduction in amount of federal valuation allowance	(3,135)		
Other items	81	7	(72)

Income tax (benefit) expense	\$	(1,727)	\$	991	\$	2,407
------------------------------	----	---------	----	-----	----	-------

</TABLE>

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

5. INCOME TAXES (CONTINUED)

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

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31		
	1995	1996	1997
<S>	<C>	<C>	<C>
Fixed assets	\$ 21	\$ 4	\$ 4
Accruals and reserves	492	328	546
Intangibles	(36)		
Net operating loss carryforwards	2,937	3,936	2,772
Credit carryforwards	90	25	16
Gross deferred tax assets	3,504	4,293	3,338
Valuation allowance	(138)	(976)	
Net deferred tax asset	\$ 3,366	\$ 3,317	\$ 3,338

</TABLE>

The Company has recorded a U.S. deferred tax asset at December 31, 1997 of \$2,019,000 reflecting the benefit of \$5,939,000 in federal tax loss carryforwards, which expire in varying amounts between 2000 and 2005. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the net deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. The Company's ability to utilize these net operating loss carryforwards is restricted to approximately \$1.5 million per year, as a result of an ownership change pursuant to Section 382 of the Internal Revenue Code.

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

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31		
	1995	1996	1997
<S>	<C>	<C>	<C>
United States	\$2,352	\$3,010	\$3,543
Foreign	124	180	2,828
	\$2,476	\$3,190	\$6,371

</TABLE>

At December 31, 1997, the Company had approximately \$765,000 net operating loss carryforwards for German income tax purposes.

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

5. INCOME TAXES (CONTINUED)

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$2,900,000 at December 31, 1997. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon.

During the years ended December 31, 1997, 1996 and 1995, the Company paid approximately \$1,492,000, \$483,000 and \$455,000, respectively, in income taxes.

6. STOCK OPTION PLANS

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

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

On April 21, 1995, the Board of Directors adopted the Company's 1995 Non-Employee Director Plan ("1995 Director Plan"). The 1995 Director Plan provides for the grant of options to purchase up to 112,500 shares of the Company's common stock to persons who are members of the Company's Board of Directors and not employees or officers of the Company. The 1995 Director Plan requires that options granted thereunder will expire ten years from the date of grant. Each option granted under the 1995 Director Plan becomes exercisable over a five year period, and vests in an installment of 20% of the total option grant upon the expiration of one year from the date of the option grant, and thereafter vests in equal quarterly installments of 5%.

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

6. STOCK OPTION PLANS (CONTINUED)

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

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

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

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

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

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

6. STOCK OPTION PLANS (CONTINUED)

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

<TABLE>
<CAPTION>

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>
Outstanding at January 1, 1995	588,960	.55
Granted in 1995	289,000	4.22
Canceled in 1995	(64,628)	1.38
Exercised in 1995	(89,197)	.36
Outstanding at December 31, 1995	724,135	1.95
Granted in 1996	188,701	5.99
Canceled in 1996	(35,097)	5.80
Exercised in 1996	(83,975)	.36
Outstanding at December 31, 1996	793,764	2.91
Granted in 1997	264,400	8.08
Canceled in 1997	(27,550)	5.13
Exercised in 1997	(31,075)	1.60
Outstanding at December 31, 1997	999,539	4.30
Exercisable at December 31, 1997	590,577	3.41

</TABLE>

Stock options outstanding at December 31, 1997 are summarized as follows:

<TABLE>
<CAPTION>

RANGE OF EXERCISE PRICES	OUTSTANDING OPTIONS AT DECEMBER 31, 1997	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>
\$0.24	81,713	3.7	.24
.67 - 1.00	276,500	6.3	.76
4.00 - 6.00	325,076	7.6	4.72
6.25 - 8.38	258,950	9.1	6.97
9.00 - 12.94	57,300	9.6	12.62
	999,539		

</TABLE>

Under the various plans, options that are cancelled can be reissued. At December 31, 1997, options for 64,250 shares were available for grant and 1,063,789 shares were reserved for future issuance.

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

7. DEFINED CONTRIBUTION PENSION PLAN

Effective January 1, 1992, the Company initiated a defined contribution pension plan covering substantially all employees. Participating employees may make contributions to the plan, through payroll deductions. Matching contributions are made by the Company equal to 50% of the employee's contribution to the extent such employee contribution did not exceed 6% of their compensation. During the years ended December 31, 1995, 1996 and 1997, the Company expensed approximately \$54,000, \$59,000 and \$82,000, respectively, related to this plan.

8. NET INCOME PER SHARE

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

<TABLE>
<CAPTION>

	1995	1996	1997
<S>	<C>	<C>	<C>
Numerator:			
Net income for basic and diluted net income per share	\$ 4,203	\$ 2,298	\$ 3,964

Denominator:			
Denominator for basic net income per share -			
weighted average common shares	3,703	4,764	4,740
Effect of dilutive securities:			
Employee Stock Options	399	434	540
	-----	-----	-----
Denominator for diluted net income per share -			
adjusted weighted average common			
Shares and assumed conversion	4,102	5,198	5,280
	=====	=====	=====
Basic net income per common share	\$ 1.14	\$.48	\$.84
	=====	=====	=====
Diluted net income per common share	\$ 1.03	\$.44	\$.75
	=====	=====	=====

</TABLE>

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

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

9. COMMITMENTS

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

1998	\$ 1,182
1999	1,215
2000	959
2001	697
2002	282
2003 and thereafter	1,256

	\$ 5,591
	=====

Rent expense for the years ended December 31, 1995, 1996 and 1997 was approximately \$618,000, \$752,000 and \$1,075,000, respectively.

The Company has royalty agreements, which require payments based on sale of certain products. Royalty expense for the years ended December 31, 1995, 1996 and 1997 was approximately \$348,000, \$265,000 and \$156,500, respectively. In connection with a royalty agreement with a company which is controlled by a shareholder/member of the Board of Directors of the Company, the Company made an advance payment of \$250,000 in 1994, which is included in other assets in the consolidated balance sheets, and is being expensed based upon sales of the related product. At December 31, 1997, the unamortized amount of this payment was approximately \$111,000.

10. SEGMENT AND GEOGRAPHIC INFORMATION

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

The following table presents financial information based on the Company's geographic segments (dollars in thousands):

<TABLE>

<CAPTION>

	NET SALES	INCOME FROM OPERATIONS	IDENTIFIABLE ASSETS
	-----	-----	-----
<S>	<C>	<C>	<C>
1995			
Italy	\$ 9,731	\$ (16)	\$ 5,356
Germany	41,210	546	21,248
Other foreign	1,226	(382)	3,183
	-----	-----	-----
Total foreign	52,167	148	29,787
	-----	-----	-----
U.S.	41,119	2,127	28,542
	-----	-----	-----
Total	\$93,286	\$2,275	\$58,329
	=====	=====	=====

</TABLE>

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

10. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

	NET SALES	INCOME FROM OPERATIONS	IDENTIFIABLE ASSETS
<S>	<C>	<C>	<C>
1996			
Italy	\$ 8,374	\$ 138	\$ 4,496
Germany	49,128	426	26,032
France	8,924	(738)	4,970
Other foreign	4,535	402	2,672
Total foreign	70,961	228	38,170
U.S.	56,719	2,708	30,320
Total	\$127,680	\$2,936	\$68,490
1997			
Italy	\$ 7,497	\$ (55)	\$ 4,288
Germany	72,299	1,175	28,869
France	9,298	(102)	5,745
United Kingdom	5,695	520	3,114
Netherlands	11,617	994	14,102
Canada	537	11	518
Total foreign	106,943	2,543	56,636
U.S.	69,214	3,674	29,732
Total	\$176,157	\$6,217	\$86,368

11. STATEMENT OF CASH FLOWS - SUPPLEMENTAL DISCLOSURES

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

	1995	1996	1997
<S>	<C>	<C>	<C>
Fair value of assets acquired:			
Current assets excluding cash	\$ 564	\$ 7,207	\$ 4,108
Fixed assets	139	676	187
Other assets, principally goodwill	1,610	10,778	2,202
Less liabilities assumed:			
Current liabilities	732	7,248	4,229
Notes payable		177	
Payable to seller	24		
Common stock issued to seller	110		
Net cash paid	\$ 1,447	\$ 11,236	\$ 2,268

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

DESCRIPTION	BEGINNING BALANCE	CHARGED TO COST AND EXPENSE	CHARGED IN OTHER ACCOUNTS	DEDUCTIONS	ENDING BALANCE
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1997:					
Allowances for accounts receivable	\$583	326	32 (1)	432	\$509
Reserve for Obsolescence	\$170	220	130 (1)	62	\$458
Year ended December 31, 1996:					
Allowances for accounts receivable	\$777	223		417	\$583
Reserve for Obsolescence	\$623	28		481	\$170
Year ended December 31, 1995:					
Allowances for accounts receivable	\$842	270	2 (1)	337	\$777
Reserve for Obsolescence	\$606	30		13	\$623

(1) Arose from acquisitions.

</TABLE>