

Wayside Technology Group, Inc.  
Form 10-Q  
October 30, 2013

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

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

Commission File No. 000-26408

## Wayside Technology Group, Inc.

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-3136104**  
(I.R.S. Employer Identification No.)

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

1157 Shrewsbury Avenue, Shrewsbury, New Jersey 07702

(Address of principal executive offices)

(732) 389-8950

Registrant's Telephone Number

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Check One:

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 4,667,097 outstanding shares of common stock, par value \$.01 per share, ( Common Stock ) as of October 25, 2013, not including 617,403 shares classified as treasury stock

**PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****Wayside Technology Group, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

(Amounts in thousands, except share and per share amounts)

	September 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 14,743	\$ 9,835
Marketable securities		4,411
Accounts receivable, net of allowances of \$1,741 and \$1,586, respectively	49,855	61,388
Inventory, net	1,210	1,717
Prepaid expenses and other current assets	1,591	1,281
Deferred income taxes	280	280
Total current assets	67,679	78,912
Equipment and leasehold improvements, net	303	375
Accounts receivable-long-term	8,069	11,851
Other assets	159	71
Deferred income taxes	201	236
	\$ 76,411	\$ 91,445
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 43,311	\$ 59,265
Current portion - capital lease obligation		55
Total current liabilities	43,311	59,320
Commitments and contingencies		
Stockholders equity		
Common Stock, \$.01 par value; 10,000,000 shares authorized, 5,284,500 shares issued; 4,674,097 and 4,740,873 shares outstanding, respectively	53	53
Additional paid-in capital	28,456	27,712
Treasury stock, at cost, 610,403 and 543,627 shares, respectively	(6,743)	(5,373)
Retained earnings	10,973	9,316
Accumulated other comprehensive income	361	417
Total stockholders equity	\$ 33,100	\$ 32,125
	\$ 76,411	\$ 91,445

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

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

## Wayside Technology Group, Inc. and Subsidiaries

## Condensed Consolidated Statements of Earnings

(Unaudited)

(Amounts in thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
Net sales	\$ 210,537	\$ 211,610	\$ 70,462	\$ 75,534
Cost of sales	193,994	194,755	65,197	69,836
Gross profit	16,543	16,855	5,265	5,698
Selling, general and administrative expenses	11,211	11,148	3,480	3,611
Income from operations	5,332	5,707	1,785	2,087
Other income:				
Interest, net	416	394	140	140
Foreign currency transaction gain (loss)	10	13	(11)	12
Income before provision for income taxes	5,758	6,114	1,914	2,239
Provision for income taxes	1,868	2,428	584	887
Net income	\$ 3,890	\$ 3,686	\$ 1,330	\$ 1,352
Income per common share Basic	\$ 0.87	\$ 0.83	\$ 0.30	\$ 0.30
Income per common share Diluted	\$ 0.85	\$ 0.80	\$ 0.29	\$ 0.29
Weighted average common shares outstanding Basic	4,457	4,467	4,442	4,502
Weighted average common shares outstanding Diluted	4,568	4,635	4,551	4,643
Dividends paid per common share	\$ 0.48	\$ 0.48	\$ 0.16	\$ 0.16

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

**Wayside Technology Group, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Comprehensive Income**

**(Unaudited)**

**(Amounts in thousands)**

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
Net income	\$ 3,890	\$ 3,686	\$ 1,330	\$ 1,352
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(67)	197	255	204
Reclassification adjustment for loss realized in net income on available-for-sale marketable securities	11			
Unrealized gain on available-for-sale marketable securities		7		2
Other comprehensive (loss) income	(56)	204	255	206
Comprehensive income	\$ 3,834	\$ 3,890	\$ 1,585	\$ 1,558

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

**Wayside Technology Group, Inc. and Subsidiaries**

**Condensed Consolidated Statement of Stockholders Equity**

**(Unaudited)**

**(Amounts in thousands, except share amounts)**

	Common Stock		Additional	Treasury		Retained	Accumulated	Total
	Shares	Amount	Paid-In	Shares	Amount	Earnings	Other	
			Capital				Comprehensive	
							Income	
Balance at January 1, 2013	5,284,500	\$ 53	\$ 27,712	543,627	\$ (5,373)	\$ 9,316	\$ 417	\$ 32,125
Net income						3,890		3,890
Translation adjustment							(67)	(67)
Reclassification adjustment for loss realized in net income on available-for-sale marketable securities							11	11
Dividends paid						(2,233)		(2,233)
Stock options exercised			65	(25,000)	136			201
Share-based compensation expense			830					830
Restricted stock grants (net of forfeitures)			(276)	(55,725)	276			
Tax benefit from share-based compensation			125					125
Treasury shares repurchased				147,501	(1,782)			(1,782)
Balance at September 30, 2013	5,284,500	\$ 53	28,456	610,403	(6,743)	10,973	361	33,100

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

## Wayside Technology Group, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Nine months ended September 30,	
	2013	2012
<b>Cash flows from operating activities</b>		
Net income	\$ 3,890	\$ 3,686
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	213	233
Deferred income tax expense	34	26
Provision for doubtful accounts receivable	157	145
Share-based compensation expense	830	743
Changes in operating assets and liabilities:		
Accounts receivable	15,044	(3,267)
Inventory	507	(268)
Prepaid expenses and other current assets	(311)	885
Accounts payable and accrued expenses	(15,941)	923
Other assets	(88)	(21)
Net cash provided by operating activities	4,335	3,085
<b>Cash flows provided by investing activities</b>		
Purchases of available-for-sale securities	(920)	(5,575)
Redemptions of available-for-sale securities	5,342	6,373
Purchase of equipment and leasehold improvements	(141)	(105)
Net cash provided by investing activities	4,281	693
<b>Cash flows from financing activities</b>		
Dividends paid	(2,233)	(2,239)
Purchase of treasury stock	(1,782)	(641)
Tax benefit from share-based compensation	125	171
Repayment of capital lease obligations	(55)	(55)
Proceeds from stock option exercises	201	430
Net cash used in financing activities	(3,744)	(2,334)
Effect of foreign exchange rate on cash	36	99
Net increase in cash and cash equivalents	4,908	1,543
Cash and cash equivalents at beginning of period	9,835	9,202
Cash and cash equivalents at end of period	\$ 14,743	\$ 10,745
<b>Supplementary disclosure of cash flow information:</b>		
Income taxes paid	\$ 2,476	\$ 2,598
Interest paid	\$ 10	\$

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



**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2013**

**(Amounts in tables in thousands, except share and per share amounts)**

1. The accompanying unaudited condensed consolidated financial statements of Wayside Technology Group, Inc. and its subsidiaries (collectively, the Company), have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete audited financial statements.

The preparation of these condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, stock-based compensation, and contingencies and litigation. The Company bases its estimates on its historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the opinion of the Company's management, all adjustments that are of a normal recurring nature, considered necessary for fair presentation, have been included in the accompanying financial statements. The Company's actual results may differ from these estimates under different assumptions or conditions. The unaudited condensed consolidated statements of earnings for the interim periods are not necessarily indicative of results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities Exchange Commission for the year ended December 31, 2012.

2. Assets and liabilities of the Company's foreign subsidiaries have been translated at current exchange rates, and related sales and expenses have been translated at average rates of exchange in effect during the period. The sales from our Canadian operations in the first nine months of 2013 were \$15.4 million as compared to \$16.8 million for the first nine months of 2012. The sales from our Canadian operations for the third quarter of 2013 were \$4.8 million as compared to \$5.4 million for the third quarter of 2012.

3. Cumulative translation adjustments and unrealized gains (losses) on available-for-sale securities have been classified within accumulated other comprehensive income, which is a separate component of stockholders' equity in accordance with FASB ASC Topic 220, Comprehensive Income.

4. Revenue on product (software and hardware) and maintenance agreement sales are recognized once four criteria are met: (1) persuasive evidence of an arrangement exists, (2) the price is fixed and determinable, (3) delivery (software and hardware) or fulfillment (maintenance) has occurred, and (4) there is reasonable assurance of collection of the sales proceeds. Revenues from the sales of hardware products, software products and licenses and maintenance agreements are recognized on a gross basis with the selling price to the customer recorded as sales and the acquisition cost of the product recorded as cost of sales.

Product delivery to customers occur in a variety of ways, including (i) as physical product shipped from the Company's warehouse, (ii) via drop-shipment by the vendor, or (iii) via electronic delivery for software licenses. The Company leverages drop-ship arrangements with many

## Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

of its vendors and suppliers to deliver products to customers without having to physically hold the inventory at its warehouse, thereby increasing efficiency and reducing costs. The Company recognizes revenue for drop-ship arrangements on a gross basis. Furthermore, in such drop-ship arrangements, the Company negotiates price with the customer, pays the supplier directly for the product shipped and bears credit risk of collecting payment from its customers. The Company serves as the principal with the customer and, therefore, recognizes the sale and cost of sale of the product upon receiving notification from the supplier that the product has shipped. Maintenance agreements

**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2013**

**(Amounts in tables in thousands, except share and per share amounts)**

allow customers to obtain technical support directly from the software publisher and to upgrade, at no additional cost, to the latest technology if new applications are introduced by the software publisher during the period that the maintenance agreement is in effect.

Sales are recorded net of discounts, rebates, and returns. Vendor rebates and price protection are recorded when earned as a reduction to cost of sales or merchandise inventory, as applicable. Cooperative reimbursements from vendors, which are earned and available, are recorded in the period the related advertising expenditure is incurred.

Cooperative reimbursements are recorded as a reduction of cost of sales in accordance with FASB ASC Topic 605-50 Accounting by a Customer (including reseller) for Certain Consideration Received from a Vendor. Provisions for returns are estimated based on historical sales returns and credit memo analysis which are adjusted to actual on a periodic basis.

Accounts receivable-long-term represent product sales with extended payment terms that are discounted to their present values at the prevailing market rates. In subsequent periods, the accounts receivable are increased to the amounts due and payable by the customers through the accretion of interest income on the unpaid accounts receivable due in future years. The amounts due under these long-term accounts receivable due within one year are reclassified to the current portion of accounts receivable.

5. The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value at September 30, 2013 and December 31, 2012 because of the relative short maturity of these instruments.

There were no available-for-sale securities as of September 30, 2013.

Investments in available-for-sale securities at December 31, 2012 were:

	Cost		Market value		Unrealized (loss)
Certificates of deposit	\$	4,422	\$	4,411	\$ (11)
Total Marketable securities	\$	4,422	\$	4,411	\$ (11)

The cost and market value of the Company's investments at December 31, 2012 determined by contractual maturity were :

	Cost	Estimated Fair Value
Due in one year or less	\$ 4,422	\$ 4,411

6. The Company accounts for the fair value measurement in accordance with FASB ASC Topic 820 Fair Value Measurement and Disclosure, which establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. The Company uses the following methods for determining fair value in accordance with FASB ASC Topic 820. For assets and liabilities that are measured using quoted prices in active markets for the identical asset or liability, the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs (Level 1). Assets and liabilities that are measured using significant other observable inputs are valued by reference to similar assets or liabilities, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market

**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2013**

**(Amounts in tables in thousands, except share and per share amounts)**

data (Level 2). For all remaining assets and liabilities for which there are no significant observable inputs, fair value is derived using an assessment of various discount rates, default risk, credit quality and the overall capital market liquidity (Level 3).

The following table summarizes the basis used to measure certain financial assets and liabilities at fair value on a recurring basis in the condensed consolidated balance sheets:

Description	Fair Value Measurements at December 31, 2012 Using			
	Balance at December 31, 2012	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 4,411	\$	\$ 4,411	\$

Certificates of deposit - The fair value of certificates of deposit is estimated using third-party quotations for similar assets. These deposits are categorized in Level 2 of the fair value hierarchy.

7. Balance Sheet Detail:

Equipment and leasehold improvements consist of the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Equipment	\$ 2,982	\$ 2,913
Leasehold improvements	557	561
	3,539	3,474
Less accumulated depreciation and amortization	(3,236)	(3,099)
	\$ 303	\$ 375

Accounts payable and accrued expenses consist of the following as of September 30, 2013 and December 31, 2012:

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

	<b>September 30, 2013</b>		<b>December 31, 2012</b>
Trade accounts payable	\$ 41,484	\$	55,734
Accrued expenses	1,827		3,531
	\$ 43,311	\$	59,265

**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2013**

**(Amounts in tables in thousands, except share and per share amounts)**

Accumulated other comprehensive income consists of the following as of September 30, 2013 and December 31, 2012:

	September 30, 2013	December 31, 2012
Foreign currency translation adjustments	\$ 361	\$ 428
Unrealized (loss) on marketable securities		(11)
	\$ 361	\$ 417

8. On January 4, 2013, Wayside Technology Group, Inc. ( Wayside ), and certain of its wholly-owned subsidiaries (collectively, the Company ), entered into a \$10,000,000 revolving credit facility (the Credit Facility ) with Citibank, N.A. ( Citibank ) pursuant to a Business Loan Agreement (the Loan Agreement ), Promissory Note (the Note ), Commercial Security Agreements (the Security Agreements ) and Commercial Pledge Agreement (the Pledge Agreement ). The Credit Facility will be used for business and working capital purposes, including financing of larger extended payment terms sales transactions. The Credit Facility matures on January 4, 2016, at which time the Company must pay this loan in one payment of any outstanding principal plus all accrued unpaid interest. In addition, the Company will pay regular monthly payments of all accrued unpaid interest. The interest rate for any borrowings under the Credit Facility is subject to change from time to time based on the changes in an independent index which is the LIBOR Rate (the Index ). If the Index becomes unavailable during the term of this loan, Citibank may designate a substitute index after notifying the Company. Interest on the unpaid principal balance of the Note will be calculated using a rate of 1.500 percentage points over the Index. The Credit Facility is secured by the assets of the Company.

Among other affirmative covenants set forth in the Loan Agreement, the Company must maintain (i) a ratio of Total Liabilities to Tangible Net Worth (each as defined in the Loan Agreement) of not greater than 2.50 to 1.00, to be tested quarterly and (ii) a minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 2.00 to 1.00. Additionally, the Loan Agreement contains negative covenants related to, among other items, prohibitions against the creation of certain liens, engaging in any business activities substantially different than those currently engaged in by the Company, and paying dividends on Wayside s stock other than (i) dividends payable in its stock and (ii) cash dividends in amounts and frequency consistent with past practice, without first securing the written consent of Citibank. The Company is in compliance with all covenants at September 30, 2013.

At September 30, 2013, the Company had no borrowings outstanding under the Credit Facility. The Company had no interest expense related to the Credit Facility for the quarter ended September 30, 2013.

9. Basic Earnings Per Share ( EPS ) is calculated by dividing net income attributable to common stockholders by the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS is calculated by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding, adjusted for potentially dilutive securities including unexercised stock option grants and nonvested shares of restricted stock.



## Wayside Technology Group, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

September 30, 2013

(Amounts in tables in thousands, except share and per share amounts)

A reconciliation of the numerators and denominators of the basic and diluted per share computations follows:

	Nine months Ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
<b>Numerator:</b>				
Net income	\$ 3,890	\$ 3,686	\$ 1,330	\$ 1,352
<b>Denominator:</b>				
Weighted average shares (Basic)	4,457	4,467	4,442	4,502
Dilutive effect of outstanding options and non-vested shares of restricted stock	111	168	109	141
Weighted average shares including assumed conversions (Diluted)	4,568	4,635	4,551	4,643
Basic net income per share	\$ 0.87	\$ 0.83	\$ 0.30	\$ 0.30
Diluted net income per share	\$ 0.85	\$ 0.80	\$ 0.29	\$ 0.29

10. The Company had one major vendor that accounted for 10.0% and 10.4% of total purchases during the nine and three months, respectively, that ended September 30, 2013. The Company had one major vendor that accounted for 14.5% and 13.6% of total purchases during the nine and three months, respectively, that ended September 30, 2012. The Company had three major customers that accounted for 15.0%, 14.3% and 11.9% of its total net sales during the nine months ended September 30, 2013, and 15.0%, 15.0% and 11.8% of total net sales for the three months ended September 30, 2013. These same customers accounted for 11.7%, 13.9% and 10.5% of total net accounts receivable as September 30, 2013. The Company had three major customers that accounted for 13.1%, 13.6% and 11.6%, respectively, of its total net sales during the nine months ended September 30, 2012, and 12.5%, 14.4% and 10.4% of total net sales for the three months then ended.

11. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2010. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

## Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

The effective tax rate for the nine and three months ended September 30, 2013 respectively, was 32.4% and 30.5%, compared with 39.7% and 39.6% for the same periods last year. The current year rates were primarily impacted by a change in the state of New Jersey's apportionment rules which lowered our state rate compared with the prior period.

12. The 2012 Stock-Based Compensation Plan (the 2012 Plan ) authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The total number of shares of Common Stock initially available for award under the 2012 Plan

**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2013**

**(Amounts in tables in thousands, except share and per share amounts)**

was 600,000. As of September 30, 2013, the number of shares of Common stock available for future award grants to employees and directors under the 2012 Plan is 578,050.

The 2006 Stock-Based Compensation Plan (the "2006 Plan") authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses, and other equity-based awards. The total number of shares of Common Stock initially available for award under the 2006 Plan was 800,000. As of September 30, 2013, there are no shares of Common Stock available for future award grants to employees and directors under the 2006 Plan.

During 2006, the Company granted a total of 315,000 shares of Restricted Stock to officers, directors and employees. Included in this grant were 200,000 Restricted Shares granted to the Company's CEO in accordance with his employment agreement. These 200,000 Restricted Shares vest over 40 equal quarterly installments. The remaining grants of Restricted Stock vest over 20 equal quarterly installments.

During 2007, the Company granted a total of 30,000 shares of Restricted Stock to officers, directors and employees. These shares of Restricted Stock vest over 20 equal quarterly installments. In 2007, a total of 12,500 shares of Restricted Stock were forfeited as a result of employees and officers terminating employment with the Company.

During 2008, the Company granted a total of 57,500 shares of Restricted Stock to officers and directors. These shares of Restricted Stock vest over 20 equal quarterly installments. In 2008, a total of 3,500 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2009, the Company granted a total of 140,000 shares of Restricted Stock to officers and employees. These shares of Restricted Stock vest over 20 equal quarterly installments.

During 2010, the Company granted a total of 150,500 shares of Restricted Stock to officers and employees. These shares of Restricted Stock vest over 20 equal quarterly installments. In 2010, a total of 5,875 shares of Restricted Stock were forfeited as a result of employees and officers terminating employment with the Company.

During 2011, the Company granted a total of 15,000 shares of Restricted Stock to employees. These shares of Restricted Stock vest over 20 equal quarterly installments. In 2011, a total of 8,375 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

## Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

During 2012, the Company granted a total of 92,000 shares of Restricted Stock to officers, directors, and employees. These shares of Restricted Stock vest over 20 equal quarterly installments. A total of 3,525 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2013, the Company granted a total of 56,500 shares of Restricted Stock to officers and employees. These shares of Restricted Stock vest over 20 equal quarterly installments except for 40,000 granted to an officer that vest over 16 equal quarterly installments. A total of 775 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2013**

**(Amounts in tables in thousands, except share and per share amounts)**

Activity during 2013 in options outstanding under the Company's combined plans (i.e., the 2012 Plan, the 2006 Plan, the 1995 Non-Employee Director Plan and the 1995 Stock Option Plan) was as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life</b>	<b>Aggregate Intrinsic Value (\$M)(1)</b>
Outstanding at January 1, 2013	310,640	\$ 8.65		
Granted in 2013				
Canceled in 2013				
Exercised in 2013	(25,000)	\$ 8.03		
Outstanding at September 30, 2013	285,640	\$ 8.71	0.8	\$ 1.2
Exercisable at September 30, 2013	285,640	\$ 8.71	0.8	\$ 1.2

(1) The intrinsic value of an option is calculated as the difference between the market value on the last trading day of the quarter (September 30, 2013) and the exercise price of the outstanding options. The market value as of September 30, 2013 was \$12.95 per share represented by the closing price as reported by The NASDAQ Global Market on that day.

A summary of nonvested shares of Restricted Stock awards outstanding under the Company's the 2012 Plan and 2006 Plan as of September 30, 2013, and changes during the nine months then ended is as follows:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested shares at January 1, 2013	251,150	\$ 11.24
Granted in 2013	56,500	12.57
Vested in 2013	(80,350)	10.32
Forfeited in 2013	(775)	9.77
Nonvested shares at September 30, 2013	226,525	\$ 11.73

As of September 30, 2013, there is approximately \$2.7 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.1 years.

For the nine months ended September 30, 2013 and 2012, the Company recognized share-based compensation cost of \$830,000 and \$743,000 respectively, which is included in the Company's general and administrative expense.

## Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

13. FASB ASC Topic 280, Segment Reporting, requires that public companies report profits and losses and certain other information on their reportable operating segments in their annual and interim financial statements. The internal organization used by the public company's Chief Operating Decision Maker (CODM) to assess performance and allocate resources determines the basis for reportable operating segments. The Company's CODM is the Chief Executive Officer.

The Company is organized into two reportable operating segments. The Lifeboat Distribution segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems

## Wayside Technology Group, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

September 30, 2013

(Amounts in tables in thousands, except share and per share amounts)

integrators primarily in the United States and Canada. The TechXtend segment is a value-added reseller of software, hardware and services for corporations, government organizations and academic institutions in the United States and Canada.

As permitted by FASB ASC Topic 280, the Company has utilized the aggregation criteria in combining its operations in Canada with the domestic segments as the Canadian operations provide the same products and services to similar clients and are considered together when the Company's CODM decides how to allocate resources.

Segment income is based on segment revenue less the respective segment's cost of revenues as well as segment direct costs (including such items as payroll costs and payroll related costs, such as profit sharing, incentive awards and insurance) and excluding general and administrative expenses not attributed to an individual segment business unit. The Company only identifies accounts receivable and inventory by segment as shown below as Selected Assets by segment; it does not allocate its other assets, including capital expenditures by segment.

The following segment reporting information of the Company is provided (in thousands):

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
<b>Revenue:</b>				
Lifeboat Distribution	\$ 171,949	\$ 158,838	\$ 56,871	\$ 55,989
TechXtend	38,588	52,772	13,591	19,545
	210,537	211,610	70,462	75,534
<b>Gross Profit:</b>				
Lifeboat Distribution	\$ 12,129	\$ 11,336	\$ 3,846	\$ 3,707
TechXtend	4,414	5,519	1,419	1,991
	16,543	16,855	5,265	5,698
<b>Direct Costs:</b>				
Lifeboat Distribution	\$ 3,445	\$ 3,310	\$ 1,095	\$ 1,071
TechXtend	2,390	2,547	735	866
	5,835	5,857	1,830	1,937
<b>Segment Income:</b>				
Lifeboat Distribution	\$ 8,684	\$ 8,026	\$ 2,751	\$ 2,636
TechXtend	2,024	2,972	684	1,125
<b>Segment Income</b>	<b>10,708</b>	<b>10,998</b>	<b>3,435</b>	<b>3,761</b>
General and administrative	\$ 5,376	\$ 5,291	\$ 1,650	\$ 1,674
Interest, net	416	394	140	140
Foreign currency translation gain (loss)	10	13	(11)	12

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

Income before taxes	\$	5,758	\$	6,114	\$	1,914	\$	2,239
---------------------	----	-------	----	-------	----	-------	----	-------

**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2013**

(Amounts in tables in thousands, except share and per share amounts)

		<b>As of September 30, 2013</b>
<b><u>Selected Assets by Segment:</u></b>		
Lifeboat Distribution	\$	27,343
TechXtend		31,791
<b>Segment Select Assets</b>		<b>59,134</b>
Corporate Assets		17,277
Total Assets	\$	76,411

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

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of risk and uncertainties, including those set forth under the heading "Certain Factors Affecting Results of Operations and Stock Price" and elsewhere in this report and those set forth in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes included in this report and the consolidated financial statements and related notes included in our 2012 Annual Report on Form 10-K.*

**Overview**

The Company operates through two reportable operating segments. The Lifeboat Distribution segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators primarily in the United States and Canada. The TechXtend segment is a value-added reseller of software, hardware and services for corporations, government organizations and academic institutions in the United States and Canada.

We offer an extensive line of products from leading publishers of software and tools for virtualization, networking, software development, database modeling, security, and other technically sophisticated domains as well as computer hardware. We market these products through direct sales, our catalogs, direct mail programs, advertisements in trade magazines, as well as through Internet and e-mail promotions.

The Company's sales, gross profit and results of operations have fluctuated and are expected to continue to fluctuate on a quarterly basis as a result of a number of factors, including but not limited to: the availability and level of vendor rebates and discounts, the loss of any major vendor, our customers ability to meet their payment obligations in a timely manner, the extent to which the Company finalizes larger sales transactions with extended payment terms, the condition of the software industry in general, shifts in demand for software products, pricing, industry shipments of new software products or upgrades, the timing of new merchandise and catalog offerings, fluctuations in response rates, fluctuations in merchandise returns, adverse weather conditions that affect response, distribution or shipping, shifts in the timing of holidays and changes in the Company's product offerings. The Company's operating expenditures are based on sales forecasts. If sales do not meet expectations in any given quarter, operating results may be materially adversely affected.

## Results of Operations

The following table sets forth for the periods indicated certain financial information derived from the Company's unaudited condensed consolidated statements of earnings expressed as a percentage of net sales. This comparison of financial results is not necessarily indicative of future results:

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
Net sales	100%	100.0%	100%	100.0%
Cost of sales	92.1	92.0	92.5	92.5
Gross profit	7.9	8.0	7.5	7.5
Selling, general and administrative expenses	5.3	5.3	4.9	4.8
Income from operations	2.6	2.7	2.6	2.7
Interest income, net	.1	.2	.1	.3
Realized foreign currency exchange gain(loss)				
Income before income taxes	2.7	2.9	2.7	3.0
Provision for income taxes	0.9	1.2	0.8	1.2
Net income	1.8%	1.7%	1.9%	1.8%

## Net Sales

Net sales for the third quarter of 2013 decreased 7% or \$5.1 million to \$70.5 million compared to \$75.5 million for the same period in 2012. Net sales for the third quarter of 2013 for our Lifeboat segment were \$56.9 million compared to \$56.0 million in the third quarter of 2012, representing an increase of \$0.9 million or 2%. Net sales for the third quarter of 2013 for our TechXtend segment were \$13.6 million compared to \$19.5 million in the third quarter of 2012, representing a decrease of \$5.9 million or 30%.

The 2% increase in net sales for the Lifeboat Distribution segment was mainly a result of the strengthening of our account penetration. The 30% decrease in net sales in the TechXtend segment was primarily due to a decrease in large single sales transactions and a decrease in extended payment terms sales transactions as compared to exceptionally strong levels of large single sales transactions and extended payment terms sales transactions in the third quarter ended September 30, 2012.

For the nine months ended September 30, 2013, net sales decreased 0.5% or \$1.1 million to \$210.5 million compared to \$211.6 million for the same period in 2012. Net sales for the nine months ended September 30, 2013 for our Lifeboat segment increased 8% or \$13.1 million to \$171.9 million compared to \$158.8 million for the same period in 2012. Net sales for the nine months ended September 30, 2013 for our TechXtend segment decreased 27% or \$14.2 million to \$38.6 million compared to \$52.8 million for the same period in 2012.

The 8% increase in net sales from our Lifeboat segment in the first nine months of 2013 compared to the same period in 2012 was mainly a result of our continued focus on the expanding virtual infrastructure-centric business, the addition of several key product lines, and the strengthening of our account penetration. The 27% decrease in net sales in the TechXtend segment was primarily due to a decrease in extended

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

payment terms sales transactions and a decrease in large single sales transactions as compared to exceptionally strong levels of extended payment terms sales transactions and large single sales transactions in the first nine months of 2012.

## Gross Profit

Gross Profit for the third quarter ended September 30, 2013 was \$5.3 million compared to \$5.7 million for the third quarter of 2012. Total gross profit for our Lifeboat segment was \$3.8 million compared to \$3.7 million in the third quarter of 2012, representing a 4% increase. The increase in gross profit for the Lifeboat segment was due to higher sales volume in the current year. Total gross profit for our TechXtend segment was \$1.4 million compared to \$2.0 million in the third quarter of 2012, representing a 29% decrease. The decrease in gross profit in the TechXtend segment was the result of the decreased sales volume, including a decrease in large single sales transactions and a decrease in extended payment terms sales transactions. Vendor rebates and discounts for the quarter ended September 30, 2013 amounted to \$0.3 million compared to \$0.4 million for the third quarter of 2012 and represent 0.4% and 0.5% of net sales, respectively. Vendor rebates are dependent on reaching certain targets set by our vendors.

For the nine months ended September 30, 2013 gross profit decreased 2% or \$0.4 million to \$16.5 million compared to \$16.9 million for the same period in 2012. Lifeboat's gross profit for the nine months ended September 30, 2013 increased 7% to \$12.1 million as compared to \$11.3 million for the first nine months of 2012. The increase in gross profit for the Lifeboat segment was primarily due to higher sales volume. TechXtend gross profit for the nine months ended September 30, 2013 decreased by 20% to \$4.4 million as compared to \$5.5 million for the first nine months of 2012. This decrease for the TechXtend segment was primarily due to the decreased sales volume, including a decrease in extended payment terms sales transactions and a decrease in large single sales transactions.

Gross profit margin; (gross profit as a percentage of net sales) for the third quarter of 2013 and 2012 was 7.5%. Gross profit margin for the nine months ended September 30, 2013 was 7.9% compared to 8.0% in the same period in 2012. Gross profit margin for our Lifeboat segment for the third quarter of 2013 was 6.8% compared to 6.6% for the third quarter of 2012. Gross profit margin for our TechXtend segment for the third quarter of 2013 was 10.4% compared to 10.2% for the third quarter of 2012. The slight increase in gross profit margin for the Lifeboat segment was primarily caused by a slight increase in rebates as a percentage of revenues. The slight increase in gross profit margin for the TechXtend segment was primarily caused by fewer larger extended payment term sales transactions during the quarter which typically carry lower margins.

Vendor rebates and discounts for the nine month period ended September 30, 2013 amounted to \$1.0 million compared to \$1.2 million for the nine month period ended September 30, 2012 and represent 0.5% and 0.6% of net sales for each period, respectively. Vendor rebates are dependent on reaching certain targets set by our vendors. Vendors have been periodically substantially increasing their target revenues for rebate eligibility. The Company monitors gross profits and gross profit margins carefully. Price competition in our market continued to intensify in 2013, with competitors lowering their prices significantly and the Company responded immediately. We anticipate that margins, as well as discounts and rebates, for the remainder of the year will continue to be affected by this current trend.

## Selling, General and Administrative Expenses

Total selling, general, and administrative (SG&A) expenses for the third quarter of 2013 were \$3.5 million compared to \$3.6 million for the third quarter of 2012, representing a decrease of \$0.1 million or 4%. This decrease is primarily the result of a decrease in commissions and bonus for our TechXtend segment (which are based on gross profit and segment income). As a percentage of net sales, SG&A expenses for the third quarter of 2013 were 4.9% compared to 4.8% for the third quarter of 2012.

For the nine months ended September 30, 2013, SG&A expenses were \$11.2 million compared to \$11.1 million in the same period in 2012, representing an increase of \$0.1 million or 1%. This increase is primarily the result of an increase in sales commissions for our Lifeboat segment (which are based on gross profit) and



an increase in salary and fringe expenses (from increased headcount in sales, finance and operations to support business growth) in 2013 compared to 2012, offset in part by a decrease in commissions and bonus for our TechXtend segment (which are based on gross profit). As a percentage of net sales, SG&A expenses were 5.3% for the nine months ended September 30, 2013 and 2012.

Direct selling costs (a component of SG&A) for the third quarter of 2013 were \$1.8 million compared to \$1.9 million for the third quarter of 2012. Total direct selling costs for our Lifeboat segment for the third quarter of 2013 were \$1.1 million compared to \$1.1 million for the same period in 2012. Total direct selling costs for our TechXtend segment for the third quarter of 2013 were \$0.7 million compared to \$0.9 million for the same period in 2012.

The Company expects that its SG&A expenses, as a percentage of net sales, may vary by quarter depending on changes in sales volume, and levels of continuing investments in employee headcount and marketing. We continue to monitor our SG&A expenses closely.

### **Income Taxes**

For the three months ended September 30, 2013, the Company recorded a provision for income taxes of \$584,000 or 30.5% of income, compared to \$887,000 or 39.6% of income for the same period in 2012. The current quarter was impacted primarily by a change in state apportionment rules which lowered our state rate compared with the prior period.

For the nine months ended September 30, 2013, the Company recorded a provision for income taxes of \$1,868,000 or 32.4% of income, compared to \$2,428,000 or 39.7% of income for the same period in 2012. The tax rate for current year was impacted primarily by a change in state apportionment rules which lowered our state rate compared with the prior period.

### **Liquidity and Capital Resources**

During the first nine months of 2013 our cash and cash equivalents increased by \$4.9 million to \$14.7 million at September 30, 2013, from \$9.8 million at December 31, 2012. During the first nine months of 2013, net cash provided by operating activities amounted to \$4.3 million, net cash provided by investing activities amounted to \$4.3 million and net cash used in financing activities amounted to \$3.7 million.

Net cash provided by operating activities in the first nine months of 2013 was \$4.3 million and primarily resulted from \$5.1 million in net income excluding non-cash charges, a \$15.0 million decrease in accounts receivable, and a decrease in inventory of \$0.5 million partially offset by a \$15.9 million decrease in accounts payable and accrued expenses, and a \$0.3 million increase in prepaid expenses & other current assets and other assets. The decreases in accounts receivable and account payable and accrued expenses were mainly due to lower sales volume, including sales on extended payment terms, in the third quarter of 2013 compared to the fourth quarter of 2012.

Net cash provided by investing activities in the first nine months of 2013 amounted to \$4.3 million. This primarily resulted from net redemptions of \$4.4 million in marketable securities, partially offset by capital expenditures of \$0.1 million. These marketable securities were highly rated, highly liquid and were classified as available-for-sale securities in accordance with ASC Topic 320 Investments in Debt and Equity Securities ,

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

and as a result, unrealized gains and losses were reported as part of accumulated other comprehensive income.

Net cash used in financing activities in the first nine months of 2013 amounted to \$3.7 million. This consisted primarily of dividends paid of \$2.2 million and Common Stock repurchases of \$1.8 million, partially offset by proceeds received from stock option exercises of \$0.2 million.

## Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

The Company's current and anticipated use of its cash and cash equivalents is, and will continue to be, to fund working capital, operational expenditures, the Common Stock repurchase program and dividends if declared by the board of directors.

We believe that the funds held in cash and cash equivalents and our unused borrowings on our credit facility will be sufficient to fund our working capital and cash requirements for at least the next 12 months.

Contractual Obligations as of September 30, 2013 are summarized as follows:

Payment due by Period	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt obligations					
Capital Lease obligations					
Operating Lease obligations (1)	\$ 638	\$ 268	\$ 370		
Purchase Obligations					
Other Long term Obligations reflected on the Company's Balance Sheet under U.S. GAAP					
<b>Total Contractual Obligations</b>	<b>\$ 638</b>	<b>\$ 268</b>	<b>\$ 370</b>		

(1) Operating leases relate primarily to the leases of the space used for our operations in Shrewsbury, New Jersey, Mississauga, Canada and Almere, Netherlands. The commitments for operating leases include the minimum rent payments.

On January 4, 2013, the Company, entered into a \$10,000,000 revolving credit facility (the "Credit Facility") with Citibank, N.A. ("Citibank") pursuant to a Business Loan Agreement (the "Loan Agreement"), Promissory Note (the "Note"), Commercial Security Agreements (the "Security Agreements") and Commercial Pledge Agreement (the "Pledge Agreement"). The Credit Facility will be used for business and working capital purposes, including financing of larger extended payment terms sales transactions. The Credit Facility matures on January 4, 2016, at which time the Company must pay this loan in one payment of any outstanding principal plus all accrued unpaid interest. In addition, the Company will pay regular monthly payments of all accrued unpaid interest. The interest rate for any borrowings under the Credit Facility is subject to change from time to time based on the changes in an independent index which is the LIBOR Rate (the "Index"). If the Index becomes unavailable during the term of this loan, Citibank may designate a substitute index after notifying the Company. Interest on the unpaid principal balance of the Note will be calculated using a rate of 1.500 percentage points over the Index. The Credit Facility is secured by the assets of the Company.

Among other affirmative covenants set forth in the Loan Agreement, the Company must maintain (i) a ratio of Total Liabilities to Tangible Net Worth (each as defined in the Loan Agreement) of not greater than 2.50 to 1.00, to be tested quarterly and (ii) a minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 2.00 to 1.00. Additionally, the Loan Agreement contains negative covenants related to, among other items, prohibitions against the creation of certain liens, engaging in any business activities substantially different than those currently engaged in by the Company, and paying dividends on Wayside's stock other than (i) dividends payable in its stock and (ii) cash dividends in amounts and frequency consistent with past practice, without first securing the written consent of Citibank. The Company is in compliance with all covenants at September 30, 2013.

At September 30, 2013, the Company had no borrowings outstanding under the Credit Facility. The Company had no interest expense related to the Credit Facility for the quarter ended September 30, 2013.

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

The Company is not committed by standby letters of credit and has no standby repurchase obligations. The Company is not engaged in any transactions with related parties.

### **Foreign Exchange**

The Company's Canadian business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. We are subject to fluctuations primarily in the Canadian Dollar-to-U.S. Dollar exchange rate.

### **Off-Balance Sheet Arrangements**

As of September 30, 2013, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### **Critical Accounting Policies and Estimates**

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

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

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

The Company believes the following critical accounting policies, used in the preparation of its unaudited condensed consolidated financial statements, affect its more significant judgments and estimates.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

## Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required.

The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance related to deferred tax assets. In the event the Company was to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

Under the fair value recognition provision stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as an expense as it is amortized on a straight-line basis over the requisite service period, which is the vesting period. We make certain assumptions in order to value and

expense our various share-based compensation awards. In connection with valuing stock options, we use the Black-Scholes model, which requires us to consider certain facts and to estimate certain subjective assumptions. The key facts and assumptions we consider are: (i) the expected volatility of our Common Stock; (ii) the expected term of the award; and (iii) the expected forfeiture rate. In connection with our restricted stock program we make assumptions principally related to the forfeiture rate. We review our valuation assumptions periodically and, as a result, we may change our valuation assumptions used to value stock based awards granted in future periods. Such changes may lead to a significant change in the expense we recognize in connection with share-based payments.

### **Certain Factors Affecting Results of Operations and Stock Price**

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Statements in this report regarding future events or conditions, including but not limited to statements regarding industry prospects and the Company's expected financial position, results of operations, business and financing plans, are forward-looking statements. These statements can be identified by forward-looking words such as may, will, expect, intend, anticipate, believe, estimate, and con similar words.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Substantial risks and uncertainties unknown at this time could cause actual results to differ materially from those indicated by such forward-looking statements, including, but not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, product mix, market conditions, competitive pricing pressures, contribution of key vendor relationships and support programs, including vendor rebates and discounts, as well as factors that affect the software industry in general and other factors generally. We strongly urge current and prospective investors to carefully consider the cautionary statements and risk factors contained in this report and our annual report on Form 10-K for the year ended December 31, 2012.

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

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

The statements concerning future sales, future gross profit margin and future selling and administrative expenses are forward looking statements involving certain risks and uncertainties such as availability of products, product mix, pricing pressures, market conditions and other factors, which could result in a fluctuation of sales below recent experience.

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



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

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

In addition to its activities in the United States, 7.3% of the Company sales during the nine months ended September 30, 2013 was generated in Canada. We are subject to general risks attendant to the conduct of business in Canada, including economic uncertainties and foreign government regulations. In addition, the Company's Canadian business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. See *Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Foreign Currency Transactions Gain (Loss)*.

The Company's cash balance is invested in short-term savings accounts with our primary banks, Citibank and JPMorgan Chase Bank. As such, we believe that the risk of significant changes in the value of our cash invested is minimal.

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of various members of our management, including our Company's President, Chairman of the Board and Chief Executive Officer (principal executive officer) and Vice President and Chief Financial Officer (principal financial officer). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting.* There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act, that occurred during the quarter ended September 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION****Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth the repurchase of Common Stock by the Company and its affiliated purchasers during the third quarter of 2013.

**ISSUER PURCHASE OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share (2)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Average Price Paid Per Share (3)</b>	<b>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (4)(5)</b>
July 1, 2013- July 31, 2013	18,727	\$ 11.65	18,727	\$ 11.65	244,047
August 1, 2013- August 31, 2013	19,354(1)	12.52	9,500	12.52	234,547
September 1, 2013- September 30, 2013	8,600	12.89	8,600	12.89	225,947
Total	46,681	\$ 12.24	36,827	\$ 12.17	

(1) Includes 9,854 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of Restricted Stock. These shares are not included in the Common Stock repurchase program referred to in footnote (4) below.

(2) Average price paid per share reflects the closing price the Company's Common Stock on the business date the shares were surrendered by the employee stockholder to satisfy individual tax withholding obligations upon vesting of Restricted Stock or the price of the Common Stock paid on the open market purchase, as applicable.

(3) Average price paid per share reflects the price of the Company's Common Stock purchased on the open market.

(4) On July 31, 2008, the Company approved the increase of its Common Stock repurchase program by an additional 500,000 shares. The Company expects to purchase shares of its Common Stock from time to time in the market or otherwise subject to market conditions. The Common Stock repurchase program does not have an expiration date.

(5) On October 23, 2012, the Board of Directors of the Company approved, and on October 29, 2012, the Company entered into a written purchase plan intended to comply with the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Plan). Purchases involving shares of the Company's Common Stock under the Plan may take place commencing October 29, 2012, and the Plan is

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

intended to be in effect until October 29, 2014. Pursuant to the Plan, the Company's broker shall effect purchases of up to an aggregate of 350,000 shares of Common Stock.

**Item 6. Exhibits**

(a) Exhibits

31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Simon F. Nynens, the Chief Executive Officer (principal executive officer) of the Company.

31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Thomas J. Flaherty, the Chief Financial Officer (principal financial officer) of the Company.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Simon F. Nynens, the Chief Executive Officer (principal executive officer) of the Company.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Thomas J. Flaherty, the Chief Financial Officer (principal financial officer) of the Company.

101 The following financial information from Wayside Technology Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, filed with the SEC on October 30, 2013, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Earnings, (3) Condensed Consolidated Statements of Stockholders' Equity, (4) Condensed Consolidated Statements of Comprehensive Income, (5) Condensed Consolidated Statements of Cash Flows, and (6) the Notes to the Unaudited Condensed Consolidated Financial Statements.\*

---

\*Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections

**SIGNATURES**

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

WAYSIDE TECHNOLOGY GROUP, INC

Edgar Filing: Wayside Technology Group, Inc. - Form 10-Q

October 30, 2013

By: /s/ Simon F. Nynens

Date

Simon F. Nynens, Chairman of the Board,  
President and Chief Executive Officer

October 30, 2013

Date

By: /s/ Thomas J. Flaherty  
Thomas J. Flaherty, Vice President and  
Chief Financial Officer