

Wayside Technology Group, Inc.  
Form 10-Q  
May 08, 2015

# 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 March 31, 2015

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 4,820,324 outstanding shares of common stock, par value \$.01 per share, ( Common Stock ) as of May 4, 2015, not including 464,176 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)

	March 31, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 21,365	\$ 23,124
Accounts receivable, net of allowances of \$1,474 and \$1,819, respectively	57,648	60,782
Inventory, net	2,198	1,491
Prepaid expenses and other current assets	1,341	933
Deferred income taxes	244	245
Total current assets	82,796	86,575
Equipment and leasehold improvements, net	392	412
Accounts receivable-long-term	5,280	7,660
Other assets	111	152
Deferred income taxes	182	182
	\$ 88,761	\$ 94,981
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 51,208	\$ 55,414
Total current liabilities	51,208	55,414
Commitments and contingencies		
Stockholders' equity		
Common Stock, \$.01 par value; 10,000,000 shares authorized, 5,284,500 shares issued; 4,803,904 and 4,890,756 shares outstanding, respectively	53	53
Additional paid-in capital	31,267	31,013
Treasury stock, at cost, 480,596 and 393,744 shares, respectively	(8,301)	(6,166)
Retained earnings	15,701	15,225
Accumulated other comprehensive loss	(1,167)	(558)
Total stockholders' equity	37,553	39,567
	\$ 88,761	\$ 94,981

*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)**

	<b>Three months ended March 31,</b>		
	<b>2015</b>	<b>2014</b>	
Net sales	\$ 92,691	71,730	
Cost of sales	86,335	66,192	
Gross profit	6,356	5,538	
Selling, general and administrative expenses	4,466	4,045	
Income from operations	1,890	1,493	
Other income:			
Interest, net	98	123	
Foreign currency transaction loss	(1)	(12)	
Income before provision for income taxes	1,987	1,604	
Provision for income taxes	684	545	
Net income	\$ 1,303	\$	1,059
Income per common share Basic	\$ 0.28	\$	0.23
Income per common share Diluted	\$ 0.28	\$	0.23
Weighted average common shares outstanding Basic	4,690	4,538	
Weighted average common shares outstanding Diluted	4,718	4,615	
Dividends paid per common share	\$ 0.17	\$	0.17

*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)**

	<b>Three months ended</b>		<b>March 31,</b>	
	<b>2015</b>		<b>2014</b>	
Net income	\$	1,303	\$	1,059
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment		(609)		(282)
Other comprehensive loss		(609)		(282)
Comprehensive income	\$	694	\$	777

*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	
	Shares	Amount	Paid-In	Shares	Amount	Earnings	Other	Total
			Capital				Comprehensive	
							Loss	
Balance at January 1, 2015	5,284,500	\$ 53	\$ 31,013	393,744	\$ (6,166)	\$ 15,225	\$ (558)	\$ 39,567
Net income						1,303		1,303
Translation adjustment							(609)	(609)
Dividends paid						(827)		(827)
Share-based compensation expense			267					267
Restricted stock grants (net of forfeitures)			(257)	(44,000)	257			
Stock options exercised			174	(25,320)	151			325
Tax benefit from share-based compensation			70					70
Treasury stock repurchased				156,172	(2,543)			(2,543)
Balance at March 31, 2015	5,284,500	\$ 53	\$ 31,267	480,596	(8,301)	\$ 15,701	\$ (1,167)	\$ 37,553

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)

	Three months ended March 31,	
	2015	2014
<b>Cash flows from operating activities</b>		
Net income	\$ 1,303	\$ 1,059
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	60	59
Deferred income tax expense (benefit)	1	(12)
Provision for doubtful accounts receivable	3	
Share-based compensation expense	267	327
Changes in operating assets and liabilities:		
Accounts receivable	4,987	3,901
Inventory	(713)	82
Prepaid expenses and other current assets	(416)	906
Accounts payable and accrued expenses	(4,004)	(14,155)
Other assets	40	(2)
Net cash provided by (used in) operating activities	1,528	(7,835)
<b>Cash flows used in investing activities</b>		
Purchase of equipment and leasehold improvements	(40)	(69)
Net cash used in investing activities	(40)	(69)
<b>Cash flows (used in) provided by financing activities</b>		
Dividends paid	(827)	(787)
Purchase of treasury stock	(2,543)	(184)
Tax benefit from share-based compensation	70	239
Proceeds from stock option exercises	325	867
Net cash (used in) provided by financing activities	(2,975)	135
Effect of foreign exchange rate on cash	(272)	(122)
Net decrease in cash and cash equivalents	(1,759)	(7,891)
Cash and cash equivalents at beginning of period	23,124	19,609
Cash and cash equivalents at end of period	\$ 21,365	\$ 11,718
<b>Supplementary disclosure of cash flow information:</b>		
Income taxes paid	\$ 532	\$ 621

*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**

**March 31, 2015**

**(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, 2014.

2. In May 2014, the FASB issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The standard is effective for our reporting year beginning January 1, 2017 and early adoption is not permitted. We are currently evaluating the impact of this new accounting pronouncement, if any, the pronouncement will have on our financial statements.

3. 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 for the first quarter of 2015 and 2014 were \$5.6 million in each of these periods.

4. Cumulative translation adjustments 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.

5. 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

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

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.

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

**Notes to Condensed Consolidated Financial Statements**

**March 31, 2015**

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

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 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 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 result from 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.

6. The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value at March 31, 2015 and December 31, 2014 because of the relative short maturity of these instruments. The Company's accounts receivable long-term is discounted to their present value at prevailing market rates so the balances approximate fair value.

7. Balance Sheet Detail:

Equipment and leasehold improvements consist of the following as of March 31, 2015 and December 31, 2014:

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

	<b>March 31, 2015</b>		<b>December 31, 2014</b>
Equipment	\$ 2,781	\$	2,744
Leasehold improvements	561		565
	3,342		3,309
Less accumulated depreciation and amortization	(2,950)		(2,897)
	\$ 392	\$	412

## Wayside Technology Group, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

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

Accounts payable and accrued expenses consist of the following as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Trade accounts payable	\$ 47,918	\$ 52,328
Accrued expenses	3,290	3,086
	\$ 51,208	\$ 55,414

Accumulated other comprehensive loss consists of the following as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Foreign currency translation adjustment	\$ (1,167)	\$ (558)
	\$ (1,167)	\$ (558)

8. 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*, which 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 the Company's stock other



## Wayside Technology Group, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

March 31, 2015

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

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 March 31, 2015.

At March 31, 2015, the Company had no borrowings outstanding under the Credit Facility.

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.

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

	2015	Three months ended March 31,	2014
<b>Numerator:</b>			
Net income	\$	1,303	\$ 1,059
<b>Denominator:</b>			
Weighted average shares (Basic)		4,690	4,538
Dilutive effect of outstanding options and non-vested shares of restricted stock		28	77
Weighted average shares including assumed conversions (Diluted)		4,718	4,615
Basic income per share	\$	0.28	\$ 0.23
Diluted income per share	\$	0.28	\$ 0.23

10. The Company had two major vendors that accounted for 25.6% and 10.0%, respectively, of total purchases during the three months ended March 31, 2015. The Company had one major vendor that accounted for 10.3% of total purchases during the three months ended March 31, 2014. The Company had two major customers that accounted for 18.5% and 17.8%, respectively, of its total net sales during the three months ended March 31, 2015. These same customers accounted for 21.9% and 11.2%, respectively, of total net accounts receivable as of March 31, 2015. The Company had three major customers that accounted for 15.7%, 15.6% and 10.5%, respectively, of its total net sales during the three months ended March 31, 2014.

11. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Company has identified its federal consolidated tax return and its state tax return in New Jersey and its Canadian tax return as major tax jurisdictions. As of March 31, 2015 the Company's 2013 and 2014 Federal tax returns remain open for examination, as the Company recently concluded an Internal Revenue Service examination for the 2011 and 2012 tax years. This examination resulted in no change to the previously filed Federal corporate tax returns. The Company's New Jersey and Canadian



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

**Notes to Condensed Consolidated Financial Statements**

**March 31, 2015**

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

tax returns are open for examination for the years 2011 through 2014. 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.

The effective tax rate for the three months ended March 31, 2015 was 34.5% compared to 34.0% for the same period last year.

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 was 600,000. As of March 31, 2015, the number of shares of Common stock available for future award grants to employees and directors under the 2012 Plan is 469,848.

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 March 31, 2015, there are no shares of Common Stock available for future award grants to employees and directors under the 2006 Plan.

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.

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.

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

During 2013, the Company granted a total of 56,500 shares of Restricted Stock to officers and employees. Included in these grants were 40,000 Restricted Shares granted to the Company's CEO in accordance with the satisfaction of certain performance criteria included in his compensation plan. These 40,000 Restricted Shares vest over 16 equal quarterly installments. The remaining grants of Restricted Stock vest over 20 equal quarterly installments. A total of 775 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2014, the Company granted a total of 98,689 shares of Restricted Stock to officers, directors and employees. These shares of Restricted Stock vest between one and twenty equal quarterly installments. A total of 34,487 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

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

**Notes to Condensed Consolidated Financial Statements**

**March 31, 2015**

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

During 2015, the Company granted a total of 44,000 shares of Restricted Stock to officers. These shares of Restricted Stock vest over sixteen equal quarterly installments.

Changes during 2015 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) were 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, 2015	50,640	\$ 12.85		
Granted in 2015				
Canceled in 2015				
Exercised in 2015	(25,320)	12.85		
Outstanding at March 31, 2015	25,320	\$ 12.85	0.1	\$ 0.1
Exercisable at March 31, 2015	25,320	\$ 12.85	0.1	\$ 0.1

(1) The intrinsic value of an option is calculated as the difference between the market value on the last trading day of the quarter (March 31, 2015) and the exercise price of the outstanding options. The market value as of March 31, 2015 was \$17.62 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 March 31, 2015, and changes during the three months then ended is as follows:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested shares at January 1, 2015	162,609	\$ 14.36
Granted in 2015	44,000	14.99
Vested in 2015	(19,887)	13.67
Forfeited in 2015		
Nonvested shares at March 31, 2015	186,722	\$ 14.15

As of March 31, 2015, there is approximately \$2.6 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 3.0 years.

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

For each of the three months ended March 31, 2015 and 2014, the Company recognized share-based compensation cost of \$0.3 million, which is included in the Company's general and administrative expense.

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

**Notes to Condensed Consolidated Financial Statements**

**March 31, 2015**

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

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 integrators worldwide. 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:

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenue:</b>		
Lifeboat Distribution	\$ 82,945	\$ 59,259
TechXtend	9,746	12,471
	92,691	71,730
<b>Gross Profit:</b>		
Lifeboat Distribution	\$ 5,234	\$ 4,116
TechXtend	1,122	1,422
	6,356	5,538
<b>Direct Costs:</b>		
Lifeboat Distribution	\$ 1,777	\$ 1,231
TechXtend	594	794

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

		2,371		2,025
<b>Segment Income:</b>				
Lifeboat Distribution	\$	3,457	\$	2,885
TechXtend		528		628
<b>Segment Income</b>		3,985		3,513
General and administrative	\$	2,095	\$	2,020
Interest, net		98		123
Foreign currency translation (loss)		(1)		(12)
Income before taxes	\$	1,987	\$	1,604

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

**Notes to Condensed Consolidated Financial Statements**

**March 31, 2015**

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

	<b>As of March 31, 2015</b>	<b>As of December 31, 2014</b>
<b>Selected Assets By Segment:</b>		
Lifeboat Distribution	\$ 41,134	\$ 39,780
TechXtend	23,992	30,153
<b>Segment Select Assets</b>	<b>65,126</b>	<b>69,933</b>
Corporate Assets	23,635	25,048
Total Assets	\$ 88,761	\$ 94,981

**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, 2014, 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 2014 Annual Report on Form 10-K.*

**Overview**

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

We offer an extensive line of products from leading publishers of software and tools for virtualization/cloud computing, security, networking, storage and infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware. We market these products through direct sales, the Internet, our catalogs, direct mail programs, advertisements in trade magazines 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 condition of the software industry in general, shifts in demand for software products, pricing, level of extended payment terms sales transactions, 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:



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

	Three months ended March 31,	
	2015	2014
Net sales	100%	100%
Cost of sales	93.1	92.3
Gross profit	6.9	7.7
Selling, general and administrative expenses	4.9	5.6
Income from operations	2.0	2.1
Interest income, net	0.1	0.2
Income before income taxes	2.1	2.3
Provision for income taxes	0.7	0.8
Net income	1.4%	1.5%

### Net Sales

Net sales for the first quarter ended March 31, 2015 increased 29% or \$21.0 million to \$92.7 million compared to \$71.7 million for the same period in 2014. Total sales for the first quarter of 2015 for our Lifeboat Distribution segment were \$82.9 million compared to \$59.3 million in the first quarter of 2014, representing an increase of \$23.7 million or 40%. Total sales for the first quarter of 2015 for our TechXtend segment were \$9.7 million compared to \$12.5 million in the first quarter of 2014, representing a decrease of \$2.7 million or 22%.

The 40% increase in net sales for the Lifeboat Distribution segment was mainly a result of the addition of several key product lines and our ongoing strategy of strengthening of our account penetration. The 22% decrease in net sales in the TechXtend segment was primarily due to a decrease in extended payment terms sales transactions and large transactions as compared to the first quarter ended March 31, 2014.

### Gross Profit

Gross Profit for the first quarter ended March 31, 2015 was \$6.4 million, a 15% increase as compared to \$5.5 million for the first quarter of 2014. Gross profit for our Lifeboat segment in the first quarter of 2015 was \$5.2 million compared to \$4.1 million for the first quarter of 2014, representing a 27% increase. The increase for the Lifeboat segment was primarily due to increased sales volume. Gross profit for our TechXtend segment in the first quarter of 2015 was \$1.1 million compared to \$1.4 million for the first quarter of 2014, representing a 21% decrease. This decrease for the TechXtend segment was primarily due to the decreased sales volume in the current year.

Gross profit margin (gross profit as a percentage of net sales) for the first quarter ended March 31, 2015 was 6.9% compared to 7.7% for the first quarter of 2014. Gross profit margin for our Lifeboat Distribution segment for the first quarter of 2015 was 6.3% compared to 6.9% for the first quarter of 2014. The decrease in gross profit margin for the Lifeboat Distribution segment was primarily caused by a change in our product mix with an increase in sales of lower margin products. Gross profit margin for our TechXtend segment for the first quarter of 2015 was essentially flat at 11.5% compared to 11.4% for the first quarter of 2014.

Vendor rebates and discounts for the quarter ended March 31, 2015 amounted to \$0.6 million compared to \$0.4 million for the first quarter of 2014, with an increase in vendor rebates for the Lifeboat distribution segment partially offset by a decrease in vendor rebates for the TechXtend segment. 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 in 2015. 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. To the extent that the Company finances larger transactions with extended payment terms, as anticipated, gross margins also will be negatively impacted.

### **Selling, General and Administrative Expenses**

Total selling, general, and administrative ( SG&A ) expenses for the first quarter of 2015 were \$4.5 million compared to \$4.0 million for the first quarter of 2014, representing an increase of \$0.4 million or 10.4%. This increase is primarily the result of an increase in employee and employee related expenses (salaries, commissions, bonus accruals and benefits) in 2015 compared to 2014. As a percentage of net sales, SG&A expenses for first quarter of 2015 were 4.9% compared to 5.6% for the first quarter of 2014.

Direct selling costs (a component of SG&A) for the first quarter of 2015 were \$2.4 million compared to \$2.0 million for the first quarter of 2014. Total direct selling costs for our Lifeboat Distribution segment for the first quarter of 2015 were \$1.8 million compared to \$1.2 million for the same period in 2014. Total direct selling costs for our TechXtend segment for the first quarter of 2015 were \$0.6 million compared to \$0.8 million for the same period in 2014.

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 plan to continue our investments in our lifeboat distribution segment and to monitor our SG&A expenses closely.

### **Income Taxes**

For the three months ended March 31, 2015, the Company recorded a provision for income taxes of \$684,000 or 34.5% of income, compared to \$545,000 or 34.0% of income for the same period in 2014.

### **Liquidity and Capital Resources**

During the first three months of 2015 our cash and cash equivalents decreased by \$1.8 million to \$21.4 million at March 31, 2015, from \$23.1 million at December 31, 2014. During the first three months of 2015, net cash provided by operating activities amounted to \$1.5 million, net cash used in investing activities amounted to less than \$0.1 million and net cash used in financing activities amounted to \$3.0 million.

Net cash provided by operating activities in the first the three months of 2015 was \$1.5 million and primarily resulted from \$1.6 million in net income excluding non-cash charges, a \$5.0 million decrease in accounts receivable offset in part by a decrease of \$4.0 in accounts payable and accrued expenses an increase of \$0.7 million in inventory and an increase of \$0.4 million in prepaid and other current assets. The decreases in accounts receivable and accounts payable and accrued expenses were mainly due to lower sales volume, in the first quarter of 2015 compared to the fourth quarter of 2014.

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

Net cash used in investing activities in the first three months of 2015 amounted to less than \$0.1 million. This was the result of capital expenditures of less than \$0.1 million.

Net cash used in financing activities in the first three months of 2015 amounted to \$3.0 million. This consisted primarily of dividends paid of \$0.8 million and treasury stock repurchases of \$2.5 million offset in part by proceeds from stock option exercises of \$0.3 million and the tax benefit from share based compensation of \$0.1 million.

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.

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

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 March 31, 2015 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)	\$ 408	\$ 286	\$ 122		
Purchase Obligations					
Other Long term Obligations reflected on the Company's Balance Sheet under GAAP					
Total Contractual Obligations	\$ 408	\$ 286	\$ 122		

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

As of March 31, 2015, the Company has no borrowings outstanding under lines of credit and no commitments relating to standby letters of credit, and has no standby repurchase obligations or other commercial commitments (see Note 8 in the Notes to our Consolidated Financial Statements).

### 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 March 31, 2015, 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

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

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.

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

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

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, 2014.

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, 6.1% of the Company sales during the three months ended March 31, 2015 were 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**

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

*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 Accounting Officer (principal financial officer). Based upon that evaluation, the Company's Chief Executive Officer and Chief Accounting 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 Accounting 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 March 31, 2015, 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 first quarter of 2015.

**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>
January 1, 2015- January 31, 2015	9,926	\$ 17.10	9,926	\$ 17.10	694,021
February 1, 2015- February 28, 2015	19,690(1)	17.15	12,300	17.20	681,721
March 1, 2015- March 31, 2015	126,556	16.09	126,556	16.09	555,165
<b>Total</b>	<b>156,172</b>	<b>\$ 16.29</b>	<b>148,782</b>	<b>\$ 16.25</b>	<b>555,165</b>

(1) Includes 7,390 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 December 3, 2014, the Board of Directors authorized the purchase of 500,000 shares of our Common Stock. 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.

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

(5) On October 29, 2014, the Board of Directors approved, and on November 10, 2014, the Company entered into a written purchase plan intended to comply with the requirements of Rule 10b5-1 under the Exchange Act, as amended (the "Plan"). Purchases involving shares of the Company's Common Stock under the Plan commenced November 10, 2014, and the Plan is intended to be in effect until May 10, 2015. Pursuant to the Plan, the Company's broker shall effect purchases of up to an aggregate of 210,000 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 Chairman of the Board , President and 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 Kevin T. Scull, the Vice President and Chief Accounting 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 Chairman of the Board, President and 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 Kevin T. Scull, the Vice President and Chief Accounting 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 March 31, 2015, filed with the SEC on May 8, 2015, 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.

**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

May 8, 2015  
Date

By: /s/ Simon F. Nynens  
Simon F. Nynens, Chairman of the Board,  
President and Chief Executive Officer

May 8, 2015  
Date

By: /s/ Kevin T. Scull  
Kevin T. Scull, Vice President and Chief Accounting Officer