

Stellus Capital Investment Corp  
Form DEF 14A  
April 17, 2019

TABLE OF CONTENTS

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

SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

Filed by the Registrant  
Filed by a Party other than the Registrant  
Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Stellus Capital Investment Corporation  
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)  
Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)  
Title of each class of securities to which transaction applies:

(2)  
Aggregate number of securities to which transaction applies:

Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4)

Proposed maximum aggregate value of transaction:

(5)

Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1)

Amount previously paid:

(2)

Form, schedule or registration statement no.:

(3)

Filing party:

(4)

Date filed:

---

TABLE OF CONTENTS

STELLUS CAPITAL INVESTMENT CORPORATION

4400 Post Oak Parkway, Suite 2200

Houston, Texas 77027

(713) 292-5400

April 19, 2019

Dear Stockholder:

You are cordially invited to attend the 2019 Annual Meeting of Stockholders (the "Annual Meeting") of Stellus Capital Investment Corporation to be held on June 27, 2019 at 9:00 a.m., Central Time, at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027. Only stockholders of record at the close of business on April 5, 2019 are entitled to the notice of, and to vote at, the Annual Meeting, including any postponement or adjournment thereof.

Details regarding the business to be conducted are more fully described in the accompanying Notice of Annual Meeting and Proxy Statement.

It is important that your shares be represented at the Annual Meeting, and you are encouraged to vote your shares as soon as possible. The enclosed proxy card contains instructions for voting over the Internet, by telephone or by returning your proxy card via mail in the envelope provided. Your vote is important.

We look forward to seeing you at the Annual Meeting.

Sincerely yours,

Robert T. Ladd

Chairman of the Board, President

and Chief Executive Officer

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on June 27, 2019.

Our proxy statement and annual report on Form 10-K for the year ended December 31, 2018 are available at the following cookies-free website that can be accessed anonymously: <http://www.viewproxy.com/StellusCapital/2019>.

---

**TABLE OF CONTENTS**

**STELLUS CAPITAL INVESTMENT CORPORATION**

4400 Post Oak Parkway, Suite 2200

Houston, Texas 77027

(713) 292-5400

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD JUNE 27, 2019**

To the Stockholders of Stellus Capital Investment Corporation:

The 2019 Annual Meeting of Stockholders (the “Annual Meeting”) of Stellus Capital Investment Corporation (the “Company”), a Maryland corporation, will be held at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027 on June 27, 2019, at 9:00 a.m., Central Time, for the following purposes:

1.

To elect two directors of the Company nominated by the Company’s Board of Directors (the “Board”) and named in this proxy statement who will each serve for three years or until his successor is elected and qualified;

2.

To approve a proposal to authorize the Company, with the approval of the Board, to sell or otherwise issue up to 25% of the Company’s outstanding common stock at an offering price that is below the Company’s then current net asset value (“NAV”) per share;

3.

To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies; and

4.

To transact such other business as may properly come before the meeting, or any postponement or adjournment thereof.

**THE BOARD, INCLUDING THE INDEPENDENT DIRECTORS, UNANIMOUSLY RECOMMENDS THAT YOU VOTE “FOR” EACH OF THESE PROPOSALS.**

The enclosed proxy statement is also available at [www.stelluscapital.com](http://www.stelluscapital.com) (under the Public Investors section). This website also includes copies of the form of proxy and the Company’s Annual Report on Form 10-K to stockholders. Stockholders may request a copy of the proxy statement and the Company’s Annual Report by contacting our main office at (713) 292-5400.

You have the right to receive notice of and to vote at the Annual Meeting if you were a stockholder of record at the close of business on April 5, 2019. Whether or not you expect to be present in person at the Annual Meeting, please sign the enclosed proxy and return it promptly in the self-addressed envelope provided. As a registered stockholder, you may also vote your proxy electronically by telephone or over the Internet by following the instructions included with your proxy card. Instructions are shown on the proxy card. In the event there are not sufficient votes for a quorum or to approve any of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be postponed or adjourned in order to permit further solicitation of the proxies by the Company.

By Order of the Board

W. Todd Huskinson

Chief Financial Officer, Chief Compliance Officer,

Secretary and Treasurer

Houston, Texas

April 19, 2019

This is an important meeting. To ensure proper representation at the Annual Meeting, please complete, sign, date and return the proxy card in the enclosed, self-addressed envelope. You may also vote your proxy electronically by

telephone or over the Internet by following the instructions included with your proxy card. Even if you vote your shares prior to the Annual Meeting, you still may attend the Annual Meeting and vote your shares in person.

---

TABLE OF CONTENTS

Table of Contents

	Page
<u>General</u>	<u>1</u>
<u>Annual Meeting Information</u>	<u>1</u>
<u>Voting Information</u>	<u>2</u>
<u>Information Regarding This Solicitation</u>	<u>5</u>
<u>Security Ownership of Certain Beneficial Owners and Management</u>	<u>6</u>
<u>Proposal 1: Election of Directors</u>	<u>8</u>
<u>Required Vote</u>	<u>8</u>
<u>Certain Relationships and Related Transactions</u>	<u>17</u>
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	<u>17</u>
<u>Executive Compensation</u>	<u>18</u>
<u>Proposal 2: Authorize the Company to Sell or Otherwise Issue up to 25% of the Company's Outstanding Common Stock at an Offering Price Per Share That Is Below the Company's Then Current NAV Per Share</u>	<u>19</u>
<u>Required Vote</u>	<u>26</u>
<u>Proposal 3: Adjournment of the Annual Meeting</u>	<u>27</u>
<u>Principal Accountant Fees and Services</u>	<u>27</u>
<u>Audit Committee Report</u>	<u>28</u>
<u>Other Business</u>	<u>29</u>
<u>Submission of Stockholder Proposals</u>	<u>29</u>
<u>Privacy Principles</u>	<u>30</u>

**TABLE OF CONTENTS**

**STELLUS CAPITAL INVESTMENT CORPORATION**

4400 Post Oak Parkway, Suite 2200

Houston, Texas 77027

(713) 292-5400

**PROXY STATEMENT**

**2019 ANNUAL MEETING OF STOCKHOLDERS**

**GENERAL**

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the “Board”) of Stellus Capital Investment Corporation (the “Company,” “we,” “us” or “our”), a Maryland corporation, for use at the Company’s 2018 Annual Meeting of Stockholders (the “Annual Meeting”) to be held June 27, 2019, at 9:00 a.m. Central Time at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027 and at any postponements or adjournments thereof. This proxy statement, the accompanying proxy card and the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the “Annual Report”) are first being sent to stockholders on or about April 19, 2019.

We encourage you to vote your shares, either by voting in person at the Annual Meeting or by granting a proxy (i.e., authorizing someone to vote your shares). If you properly sign and date the accompanying proxy card, and the Company receives it in time for the Annual Meeting, the persons named as proxies will vote the shares registered directly in your name in the manner that you specified. This proxy statement is also available via the Internet at [www.stelluscapital.com](http://www.stelluscapital.com) (under the Public Investors section). The website also includes electronic copies of the form of proxy and the Company’s Annual Report. If your shares are registered in the name of a bank or brokerage firm, you may be eligible to vote your shares electronically via the Internet or by telephone. This program provides eligible stockholders who receive a copy of the Company’s Annual Report and proxy statement, either by paper or electronically, the opportunity to vote via the Internet or by telephone. If your voting form does not reference Internet or telephone voting information, please complete and return the paper proxy card in the pre-addressed, postage-paid envelope provided.

**ANNUAL MEETING INFORMATION**

**Date and Location**

We will hold the Annual Meeting on June 27, 2019, at 9:00 a.m. Central Time at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027.

**Admission**

Only record or beneficial owners of the Company’s common stock as of the close of business on April 5, 2019 or their proxies may attend the Annual Meeting. Beneficial owners must also provide evidence of stock holdings, such as a recent brokerage account or bank statement.

**Purpose of the Annual Meeting**

At the Annual Meeting, you will be asked to vote on the following proposals:

1.

To elect two directors of the Company nominated by the Board and named in this proxy statement who will each serve for three years or until his successor is elected and qualified;

2.

To approve a proposal to authorize the Company, with the approval of the Board, to sell or otherwise issue up to 25% of the Company’s outstanding common stock at an offering price that is below the Company’s then current net asset value (“NAV”) per share;

3.

To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies; and

4.

To transact such other business as may properly come before the meeting, or any postponement or adjournment thereof.





TABLE OF CONTENTS

VOTING INFORMATION

Record Date and Quorum Required

The record date of the Annual Meeting is the close of business on April 5, 2019 (the “Record Date”). You may cast one vote for each share of common stock that you own as of the Record Date.

A quorum of stockholders must be present for any business to be conducted at the Annual Meeting. The presence at the Annual Meeting, in person or by proxy, of stockholders entitled to cast a majority of the votes entitled to be cast as of the Record Date will constitute a quorum. Abstentions will be treated as shares present for quorum purposes. On the Record Date, there were 18,703,810 shares outstanding and entitled to vote. Thus, 9,351,906 shares must be represented by stockholders present at the Annual Meeting or by proxy to have a quorum.

If a quorum is not present at the Annual Meeting, the stockholders who are represented may adjourn the Annual Meeting until a quorum is present. The persons named as proxies will vote those proxies for such adjournment, unless marked to be voted against any proposal for which an adjournment is sought, to permit further solicitation of proxies.

Submitting Voting Instructions for Shares Held Through a Broker

If you hold shares of common stock through a broker, bank or other nominee, you must follow the voting instructions you receive from your broker, bank or nominee. If you hold shares of common stock through a broker, bank or other nominee and you want to vote in person at the meeting, you must obtain a legal proxy from the record holder of your shares and present it at the meeting. If you do not submit voting instructions to your broker, bank or other nominee, your broker, bank or other nominee will not be permitted to vote your shares on any proposal considered at the meeting.

Authorizing a Proxy for Shares Held in Your Name

If you are a record holder of shares of common stock, you may authorize a proxy to vote on your behalf by mail, as described on the enclosed proxy card. Authorizing a proxy will not limit your right to vote in person at the meeting. A properly completed, executed and submitted proxy will be voted in accordance with your instructions, unless you subsequently revoke the proxy. If you authorize a proxy without indicating your voting instructions, the proxyholder will vote your shares according to the Board’s recommendations.

Revoking Your Proxy

If you are a stockholder of record, you can revoke your proxy by (1) delivering a written revocation notice prior to the Annual Meeting to our Secretary, W. Todd Huskinson, at 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027; (2) delivering a later-dated proxy that we receive no later than the opening of the polls at the meeting; or (3) voting in person at the meeting. If you hold shares of common stock through a broker, bank or other nominee, you must follow the instructions you receive from your nominee in order to revoke your voting instructions. Attending the Annual Meeting does not revoke your proxy unless you also vote in person at the meeting.

TABLE OF CONTENTS

## Vote Required

Proposal	Vote Required	Broker Discretionary Voting Allowed	Effect of Abstentions and Broker Non-Votes
Proposal 1 — To elect two directors of the Company nominated by the Company’s Board and named in this proxy statement who will serve for three years or until his successor is elected and qualified.	Affirmative vote of the holders of a plurality of the shares of stock outstanding and entitled to vote thereon at the Annual Meeting.	No	Because directors are elected by a plurality of the votes, an abstention will have no effect on the outcome of the vote.
Proposal 2 — To approve a proposal to authorize the Company, with the approval of the Board, to sell or otherwise issue up to 25% of the Company’s outstanding common stock at an offering price that is below the Company’s then current NAV per share.	Pursuant to the Investment Company Act of 1940 (the “1940 Act”), approval of this proposal requires the affirmative vote of: (i) a “majority of the outstanding shares of common stock” of the Company; and (ii) a “majority of the outstanding shares of common stock” of the Company which are not held by affiliated persons of the Company, which includes our directors, officers, employees and 5% stockholders.  For purposes of this proposal, the 1940 Act defines “a majority of the outstanding shares common stock” as: (A) 67% or more of the shares of common stock present at the Annual Meeting if the holders of more than 50% of the outstanding shares of common stock of the Company are present or represented by proxy; or (B) 50% of the outstanding shares of common stock of the Company, whichever is the less.  Affirmative vote of the holders of a majority of the votes cast at the Annual Meeting.	No	Abstentions and broker non-votes, if any, will have the effect of a vote against this proposal.

TABLE OF CONTENTS

Proposal	Vote Required	Broker Discretionary Voting Allowed	Effect of Abstentions and Broker Non-Votes
Proposal 3 — To approve the adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies. 4	Affirmative vote of the holders of a majority of the votes cast at the Annual Meeting.	No	Abstentions and broker non-votes, if any, will have no effect on the outcome of the vote.

---

**TABLE OF CONTENTS**

**INFORMATION REGARDING THIS SOLICITATION**

The Company will bear the expense of the solicitation of proxies for the Annual Meeting, including the cost of preparing, printing, and mailing this proxy statement, the accompanying Notice of Annual Meeting of Stockholders, and the proxy card. We have requested that brokers, nominees, fiduciaries and other persons holding shares in their names, or in the name of their nominees, which are beneficially owned by others, forward the proxy materials to, and obtain proxies from, such beneficial owners. We will reimburse such persons for their reasonable expenses in so doing.

In addition to the solicitation of proxies by the use of the mail, proxies may be solicited in person and by telephone or facsimile transmission by directors, officers or regular employees of the Company or Stellus Capital Management, LLC, the Company's external investment adviser and administrator ("Stellus Capital Management"), for which no director, officer or regular employee will receive any additional or special compensation. The address of Stellus Capital Management is 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027.

The Company has engaged the services of Alliance Advisors LLC ("Alliance") for the purpose of assisting in the solicitation of proxies at an anticipated cost of approximately \$7,000 plus reimbursement of certain out-of-pocket expenses and fees for additional services requested. Please note that Alliance may solicit stockholder proxies by telephone on behalf of the Company. They will not attempt to influence how you vote your shares, but only ask that you take the time to authorize your proxy. You may also be asked if you would like to authorize your proxy over the telephone and to have your voting instructions transmitted to the Company's proxy tabulation firm.

The Securities and Exchange Commission (the "SEC") has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement and annual report addressed to those stockholders. This process, which is commonly referred to as "householding," potentially means extra convenience for stockholders and cost savings for companies.

A number of brokerages and other institutional holders of record have implemented householding. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. If you have received notice from your broker that it will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, please notify your broker. Stockholders who currently receive multiple copies of the proxy statement at their addresses and would like to request information about householding of their communications should contact their brokers or other intermediary holder of record. You can notify us by sending a written request to: W. Todd Huskinson, Secretary, Stellus Capital Investment Corporation, 4400 Post Oak Parkway, Suite 2200 Houston, Texas 77027, or by calling (713) 292-5400. In addition, we will promptly deliver, upon written or oral request to the address or telephone number above, a separate copy of the Annual Report and proxy statement to a stockholder at a shared address to which a single copy of the documents was delivered.

**TABLE OF CONTENTS****SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of April 5, 2019, the beneficial ownership of each current director, each nominee for director, the Company's executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Shares of common stock subject to options or warrants that are currently exercisable or exercisable within 60 days of April 5, 2019 are deemed to be outstanding and beneficially owned by the person holding such options or warrants. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of ownership is based on 18,703,810 shares of common stock outstanding as of April 5, 2019.

Unless otherwise indicated, to our knowledge, each stockholder listed below has sole voting and investment power with respect to the shares beneficially owned by the stockholder, except to the extent authority is shared by their spouses under applicable law. Unless otherwise indicated, the address of all executive officers and directors is c/o Stellus Capital Investment Corporation, 4400 Post Oak Parkway, Suite 2200, Houston, Texas 77027.

The Company's directors are divided into two groups — interested directors and independent directors. Interested directors are "interested persons" as defined in Section 2(a)(19) of the 1940 Act.

Name and Address of Beneficial Owner	Number of Shares Owned Beneficially(1)	Percentage of Class
<b>Interested Directors</b>		
Robert T. Ladd	478,776	2.56%
Joshua T. Davis	232,549	1.24%
Dean D'Angelo	156,546	*
<b>Independent Directors</b>		
J. Tim Arnoult	10,870	*
Bruce R. Bilger	92,327	*
Paul Keglevic	8,579	*
William C. Repko	10,000	*
<b>Executive Officers</b>		
W. Todd Huskinson	22,058	*
Executive officers and directors as a group	1,011,705	5.41%
<b>5% Holders</b>		
None		

\*

Less than 1%

(1)

Beneficial ownership has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended.

TABLE OF CONTENTS

The following table sets forth as of April 5, 2019, the dollar range of our securities owned by our directors and executive officers.

Name	Dollar Range of Equity Securities Beneficially Owned(1)(2)(3)
Interested Director:	
Robert T. Ladd	over \$100,000
Dean D'Angelo	over \$100,000
Joshua T. Davis	over \$100,000
Independent Directors:	
J. Tim Arnoult	over \$100,000
Bruce R. Bilger	over \$100,000
Paul Keglevic	over \$100,000
William C. Repko	over \$100,000
Executive Officers:	
W. Todd Huskinson	over \$100,000

(1)  
Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended.

(2)  
The dollar range of the equity securities beneficially owned is based on the closing price per share of the Company's common stock of \$14.27 on April 5, 2019 on the New York Stock Exchange.

(3)  
The dollar ranges of equity securities beneficially owned are: none; \$1 – \$10,000; \$10,001 – \$50,000; \$50,001 – \$100,000 and over \$100,000.

TABLE OF CONTENTS

PROPOSAL 1: ELECTION OF DIRECTORS

Our business and affairs are managed under the direction of our Board. Pursuant to our articles of incorporation, the number of directors on our Board is currently fixed at seven directors and is divided into three classes. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualified. At each Annual Meeting, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the Annual Meeting of Stockholders held in the third year following the year of their election and until their successors have been duly elected and qualified or any director's earlier resignation, death or removal.

Dean D'Angelo and William C. Repko have been nominated by the Board for re-election for a three year term expiring in 2022. Messrs. D'Angelo and Mr. Repko have indicated his willingness to continue to serve if elected and have consented to be named as a nominee. Neither of Messrs. D'Angelo and Repko are being nominated to serve as a director pursuant to any agreement or understanding between him and the Company.

A stockholder can vote for or withhold his or her vote for each of the nominees. In the absence of instructions to the contrary, it is the intention of the persons named as proxies to vote such proxy FOR the election of the nominees named in this proxy statement. If any of the nominees should decline or be unable to serve as a director, it is intended that the proxy will be voted for the election of such person as is nominated by the Board as a replacement. The Board has no reason to believe that any of the nominees will be unable or unwilling to serve.

Required Vote

This proposal requires the affirmative vote of the holders of a plurality of the shares of stock outstanding and entitled to vote thereon. Stockholders may not cumulate their votes. If you vote "withhold authority" with respect to any of the nominees, your shares will not be voted with respect to the person indicated. Because directors are elected by a plurality of the votes, an abstention will have no effect on the outcome of the vote and, therefore, is not offered as a voting option for this proposal.

The Board unanimously recommends a vote "for" the election of each of the nominees named in this proxy statement.

TABLE OF CONTENTS

## Information about Directors and Executive Officers

## Board of Directors

We have adopted provisions in our articles of incorporation that divide our Board into three classes. At each annual meeting, directors will be elected for staggered terms of three years (other than the initial terms, which extend for up to three years), with the term of office of only one of these three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Information regarding Messrs. D'Angelo and Repko, each of whom are being nominated for election as directors of the Company by the stockholders at the Annual Meeting, as well as information about our current directors whose terms of office will continue after the Annual Meeting is as follows:

Name	Year of Birth	Position	Director Since	Term Expires
<b>Interested Directors</b>				
Robert T. Ladd	1956	Chairman, Chief Executive Officer and President	2012	2021
Dean D'Angelo	1967	Director	2012	2019
Joshua T. Davis	1972	Director	2012	2020
<b>Independent Directors</b>				
\$	0.59	\$ 0.18	\$	0.18
<hr/>				
Weighted average common shares outstanding-Basic	4,422		4,395	4,408
				4,426
<hr/>				
Weighted average common shares outstanding-Diluted	4,491		4,682	4,438
				4,674
<hr/>				
Cash dividends per common share	\$ 0.45	\$	0.43	\$ 0.15
				\$ 0.15
<hr/>				

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



Wayside Technology Group, Inc. and Subsidiaries  
 Condensed Statement of Stockholders' Equity and Comprehensive Income  
 (Dollars in thousands, except share amounts)  
 (Unaudited)

	Common Stock		Additional Paid-In Capital	Treasury		Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount		Shares	Amount			
Balance at January 1, 2008	5,284,500	\$ 53	\$ 28,860	576,002	\$ (2,283)	\$ (2,599)	\$ 461	\$ 24,492
Net income						2,263		2,263
Other comprehensive income:								
Translation adjustment								
Unrealized loss on available- for-sale securities							(141)	(141)
Comprehensive income							(4)	(4)
Dividends paid								2,118
Exercise of stock options			(2,114)					(2,114)
			59	(45,000)	164			223
Share-based compensation expense			551					551
Restricted stock grants			(185)	(54,000)	185			—
Treasury shares repurchased				128,329	(1,196)			(1,196)
Balance at September 30, 2008	5,284,500	\$ 53	\$ 27,171	605,331	\$ (3,130)	\$ (336)	\$ 316	\$ 24,074

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

**WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	Nine months ended September 30,	
	2008	2007
Net income	\$ 2,263	\$ 2,772
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	255	234
Bad debt expense	58	31
Deferred income taxes	253	1,032
Share-based compensation expense	551	448
Changes in operating assets and liabilities:		
Accounts receivable	(2,003)	8,689
Inventory	55	16
Prepaid expenses and other current assets	222	(241)
Accounts payable and accrued expenses	831	(13,613)
Net change in other assets and liabilities	(36)	(23)
Net cash provided by (used in) operating activities	2,449	(655)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(14,844)	(16,473)
Redemptions of available-for-sale securities	14,795	14,088
Capital expenditures	(259)	(358)
Net cash used in investing activities	(308)	(2,743)
Cash flows from financing activities:		
Dividend paid	(2,114)	(1,983)
Proceeds from exercise of stock options	223	994
Treasury stock repurchased	(1,196)	(915)
Tax benefit from stock option exercises	—	501
Net cash used in financing activities	(3,087)	(1,403)
Effect of foreign exchange rate on cash	(124)	239
Net decrease in cash and cash equivalents	(1,070)	(4,562)

Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

Cash and cash equivalents at beginning of period	14,241	13,832
Cash and cash equivalents at end of period	\$ 13,171	\$ 9,270

Supplementary disclosure of cash flow information:

Income taxes paid	1,318	494
-------------------	-------	-----

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, 2008**

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 for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, stock-based compensation and costs associated with exit or disposal activities, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the opinion of the Company's management, all adjustments that are of a normal recurring nature, considered necessary for fair presentation, have been included. Actual results may differ from these estimates under different assumptions or conditions. The unaudited 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, 2007.

2. In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 162"), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States. The FASB believes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 to have a material effect on its condensed consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("EITF 03-6-1"). EITF 03-6-1 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents under Statement No. 128, Earnings Per Share. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents will be considered participating securities and will be included in the computation of earnings per share pursuant to the two-class method. The effective date of EITF 03-6-1 is for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those years. Early adoption is not permitted. Once effective, all prior period earnings per share data presented will be adjusted retrospectively. The Company is currently evaluating the potential impact, if any, the adoption of EITF 03-6-1 may have on its condensed consolidated financial statements.

3. Assets and liabilities of the Company's Canadian subsidiary have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during

Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

the period. The revenue from our Canadian operations in the first nine months of 2008 was \$16.1 million as compared to \$16.6 million for the first nine months of 2007. The revenue from our Canadian operations for the third quarter of 2008 was \$4.3 million as compared to \$5.1 million for the third quarter of 2007.

4. 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 Statement No. 130, "Reporting Comprehensive Income."
5. The Company records revenues from sales transactions when title to products sold passes to the customer. Usual sales terms are FOB shipping point, at which time title and risk of loss has passed to the customer and delivery has occurred. Revenue is recognized in accordance with Statements of Position ("SOP") 97-2 "Software Revenue Recognition," Staff Accounting Bulletin ("SAB") No. 101 and No. 104, "Revenue Recognition" and Emerging Issues Task Force ("EITF") 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." The majority of the Company's revenues relates to physical products and is recognized on a gross basis with the selling price to the customer recorded as net sales with the acquisition cost of the product to the Company recorded as cost of sales. At the time of sale, the Company also records an estimate for sales returns based on historical experience. Certain software maintenance products, third party services and extended warranties sold by the Company (for which the Company is not the primary obligor) are recognized on a net basis. Accordingly, such revenues are recognized in net sales either at the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by the Company, with no cost of goods sold.
6. 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 net sales in accordance with EITF 02-16 "Accounting by a Customer (including reseller) for Certain Consideration Received from a Vendor."
7. Investments in available-for-sale securities at September 30, 2008 were (in thousands):

	Cost	Market value	Unrealized Gain (Loss)
U.S. Government Securities	\$ 8,961	\$ 8,970	\$ 9
Certificates of Deposit	721	716	(5)
	<u>\$ 9,682</u>	<u>\$ 9,686</u>	<u>\$ 4</u>

The cost and market value of the Company's investments at September 30, 2008 by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$ 9,682	\$ 9,686

Investments in available-for-sale securities at December 31, 2007 were (in thousands):

	Cost	Market value	Unrealized Gain
U.S. Government Securities	\$ 9,633	\$ 9,641	\$ 8

The cost and market value of the Company's investments at December 31, 2007 by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$ 9,633	\$ 9,641

Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

8. Balance Sheet Detail – (in thousands):

Other assets consisted of the following at September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	<u>                    </u>	<u>                    </u>
Accounts Receivable - long-term	\$ 4,350	\$ 3,402
Security Deposits	56	56
Trademarks	11	11
	<u>                    </u>	<u>                    </u>
Total	\$ 4,417	\$ 3,469
	<u>                    </u>	<u>                    </u>

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 from 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. The current portion of these long-term accounts receivable included in the current portion of accounts receivable at September 30, 2008 and December 31, 2007 is \$4,038 and \$3,702 respectively.

Accounts payable and accrued expenses consist of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008	December 31, 2007
	<u>                    </u>	<u>                    </u>
Trade accounts payable	\$ 31,391	\$ 30,597
Other accrued expenses	1,336	1,503
	<u>                    </u>	<u>                    </u>
	\$ 32,727	\$ 32,100
	<u>                    </u>	<u>                    </u>

9. Basic EPS is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted EPS is computed considering the potentially dilutive effect of outstanding stock options and nonvested shares of restricted stock. A reconciliation of the numerators and denominators of the basic and diluted per share computations follows (in thousands, except per share data):

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Numerator:				
Net income	\$ 2,263	\$ 2,772	\$ 811	\$ 822
Denominator:				
Weighted average shares (Basic)	4,422	4,395	4,408	4,426
Dilutive effect of outstanding options and nonvested shares of restricted stock	69	287	30	248
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

Weighted average shares including assumed conversions (Diluted)	<u>4,491</u>	<u>4,682</u>	<u>4,438</u>	<u>4,674</u>
Basic net income per share	\$ 0.51	\$ 0.63	\$ 0.18	\$ 0.19
Diluted net income per share	\$ 0.50	\$ 0.59	\$ 0.18	\$ 0.18

Page 8 of 25

---

## Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

The diluted earnings per share calculation for the nine months ended September 30, 2008 excluded 55,640 shares related to options as the exercise prices of these options were greater than the weighted average of the closing prices of our Common Stock for each trading day during the nine months ended September 30, 2008, and also excluded 278,875 shares of nonvested restricted stock as the grant prices of such shares were greater than the weighted average closing price for the period ended September 30, 2008. For the nine months ended September 30, 2007, no shares were excluded.

10. The Company had two major vendors that accounted for 26.6% and 10.8% of total purchases during the nine months ended September 30, 2008 and 21.5% and 12.0%, respectively, for the three months then ended. The Company had two major vendors that accounted for 37.8% and 8.6% of total purchases during the nine months ended September 30, 2007 and 31.9% and 10.6%, respectively, for the three months then ended. The Company had no major customers that accounted for more than 10% of total net sales, respectively, during the nine and three months ended September 30, 2008. The Company had two major customers that accounted for 12.0% and 9.3% of total net sales during the nine months ended September 30, 2007 and 8.6% and 12.2% respectively during the three months ended September 30, 2007.

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 2005. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. Accrued interest is insignificant and there are no penalties accrued at September 30, 2008. The Company believes that it has appropriate support for the income tax positions taken and to be taken 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 provision consists of the following (in thousands):

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
<b>Current:</b>				
Federal	\$ 1,009	\$ 638	\$ 470	\$ 328
State	103	75	7	21
Canada	164	153	36	38
	<u>1,276</u>	<u>866</u>	<u>513</u>	<u>387</u>
Deferred tax expense	253	1,032	58	213
	<u>\$ 1,529</u>	<u>\$ 1,898</u>	<u>\$ 571</u>	<u>\$ 600</u>
Effective tax rate	<u>40.3%</u>	<u>40.6%</u>	<u>41.3%</u>	<u>42.2%</u>

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	<b>Federal, State and Foreign Tax</b>
Balance at January 1, 2008	\$ 230
Additions based on tax positions related to current year	—
Gross Unrecognized Tax Benefit at September 30, 2008	<u>\$ 230</u>
Net Unrecognized Tax Benefit at September 30, 2008	<u>\$ 78</u>





## Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

The net Unrecognized Tax Benefit is included as a component of Other Liabilities within the Consolidated Balance Sheet.

12. In accordance with SFAS No. 123(R), "Share-Based Payment," recognized compensation cost for the nine months ended September 30, 2008 and 2007 includes 1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123(R); and 2) compensation cost for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with Statement 123(R).

At the annual stockholders' meeting held on June 14, 2006, the Company's stockholders approved the 2006 Stock-Based Compensation Plan (the "2006 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 under the 2006 Plan was 800,000. As of September 30, 2008, the number of shares of common stock available for future award grants to employees and directors under this plan is 413,500.

During 2006, the Company granted a total of 315,000 shares of restricted common stock to officers, directors and employees. Included in this grant were 200,000 restricted shares granted to the Company's Chief Executive Officer in accordance with his employment agreement. These 200,000 restricted shares vest over 120 months. The remaining 115,000 shares granted vest over 60 months.

During 2007, the Company granted a total of 30,000 shares of restricted stock to officers, directors and employees. These shares vest over 60 months. A total of 12,500 shares of restricted common stock were forfeited as a result of employees and officers terminating employment with the Company.

In February 2008, the Company granted a total of 57,500 shares of restricted stock to officers and directors. These shares vest over 60 months. A total of 3,500 shares of restricted common stock were forfeited as a result of employees terminating employment with the Company.

In July 2008, the Company approved the increase of its common stock repurchase program by 500,000 shares. The company expects to purchase shares from time to time in the market or otherwise subject to market conditions.

Changes during 2008 in options outstanding for the Company's combined plans were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (\$000's)(1)
Outstanding at January 1, 2008	442,890	\$ 7.85		
Granted in 2008	—	—		
Forfeited in 2008	(5,000)	\$ 12.85		
Exercised in 2008	(45,000)	\$ 4.96		\$ 0.2
Outstanding at September 30, 2008	392,890	\$ 8.12	5.4	\$ 0.2
Exercisable at September 30, 2008	392,890	\$ 8.12	5.4	\$ 0.2

(1) The intrinsic value is calculated as the difference between the market value on the last trading day of the quarter September 30, 2008 and the exercise price of the shares. The market value as of September 30, 2008 was \$7.52 as reported by The NASDAQ Global Market.

## Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

A summary of nonvested shares of restricted stock awards outstanding under the Company's 2006 Plan as of September 30, 2008, and changes during the nine months then ended is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2008	267,250	\$ 13.47
Granted in 2008	57,500	10.68
Vested in 2008	(42,375)	13.00
Forfeited in 2008	(3,500)	14.85
	278,875	\$ 12.80

As of September 30, 2008, there is approximately \$3.6 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 5.98 years.

For the nine months ended September 30, 2008 and 2007, the Company recognized share-based compensation cost of approximately \$551,000 and \$448,000, respectively, which is included in general and administrative expense.

13. SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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 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 "Programmer's Paradise" segment, which sells technical software, hardware and services directly to end-users (such as individual programmers, corporations, government agencies, and educational institutions) and the "Lifeboat" segment, which distributes technical software to corporate resellers, VARs, consultants and systems integrators.

As permitted by SFAS No. 131, the Company has utilized the aggregation criteria in combining its operations in Canada with the domestic segments as they provide the same products and services to similar clients and are considered together when the 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 a business unit. The Company only identifies accounts receivable and inventory by segment as shown below as "Selected Assets"; it does not allocate its other assets, including capital expenditures by segment.

Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

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

	Nine months ended September 30,		Three months ended September 30,	
	2008	2007	2008	2007
<b>Revenue:</b>				
Programmer's Paradise	\$ 39,562	\$ 32,217	\$ 15,318	\$ 11,021
Lifeboat	94,432	100,535	30,074	30,769
	<u>133,994</u>	<u>132,752</u>	<u>45,392</u>	<u>41,790</u>
<b>Gross Profit:</b>				
Programmer's Paradise	\$ 4,471	\$ 4,302	\$ 1,644	\$ 1,421
Lifeboat	7,825	8,616	2,609	2,705
	<u>12,296</u>	<u>12,918</u>	<u>4,253</u>	<u>4,126</u>
<b>Direct Costs:</b>				
Programmer's Paradise	\$ 2,147	\$ 2,197	\$ 727	\$ 739
Lifeboat	2,176	2,133	673	733
	<u>4,323</u>	<u>4,330</u>	<u>1,400</u>	<u>1,472</u>
<b>Segment Income:</b>				
Programmer's Paradise	\$ 2,324	2,104	\$ 917	682
Lifeboat	5,649	6,484	1,936	1,972
	<u>7,973</u>	<u>8,588</u>	<u>2,853</u>	<u>2,654</u>
<b>Segment Income</b>				
Corporate general and administrative expenses	\$ 4,736	4,668	\$ 1,643	1,490
Interest income	549	749	173	257
Foreign currency translation gain (loss)	6	1	(1)	1
	<u>3,792</u>	<u>4,670</u>	<u>1,382</u>	<u>1,422</u>
Income before taxes	\$ 3,792	\$ 4,670	\$ 1,382	\$ 1,422
<b>Selected Assets By Segment:</b>				
Programmer's Paradise	\$ 13,279	\$ 7,694		
Lifeboat	13,387	13,705		
Corporate assets	30,264	24,308		
	<u>56,930</u>	<u>45,707</u>		
<b>Segment Select Assets</b>	\$ 56,930	\$ 45,707		

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

## Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Certain Factors Affecting Operating Results" and elsewhere in this report. The following discussion should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2007.

### **Overview**

The Company is organized into two reportable operating segments — the "Programmer's Paradise" segment, which sells technical software, hardware and services directly to end-users (such as individual programmers, corporations, government agencies, and educational institutions) and the "Lifeboat" segment, which distributes technical software to corporate resellers, VARs, consultants and systems integrators.

## Edgar Filing: Stellus Capital Investment Corp - Form DEF 14A

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

### Results of Operations

The following table sets forth for the periods indicated certain financial information derived from the Company's consolidated 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,	
	2008	2007	2008	2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	90.8	90.3	90.6	90.1
Gross profit	9.2	9.7	9.4	9.9
Selling, general and administrative expenses	6.8	6.7	6.7	7.1
Income from operations	2.4	3.0	2.7	2.8
Interest income, net	0.4	0.5	0.4	0.6
Realized foreign currency exchange gain (loss)	0.0	0.0	0.0	0.0
Income before income taxes	2.8	3.5	3.1	3.4
Provision for income taxes	1.1	1.4	1.3	1.4
Net income	1.7%	2.1%	1.8%	2.0%

### Net Sales

Net sales for the third quarter of 2008 increased 8.6% or \$3.6 million to \$45.4 million compared to \$41.8 million for the comparable period in 2007. Total sales for the third quarter of 2008 for our Lifeboat segment were \$30.1 million compared to \$30.8 million in the third quarter of 2007, representing a 2.3% decrease. Total sales for the third quarter of 2008 for our Programmer's Paradise segment were \$15.3 million compared to \$11.0 million in the third quarter of 2007, representing a 39% increase.

For the nine months ended September 30, 2008, net sales increased 1% or \$1.2 million to \$134.0 million compared to \$132.8 million for the comparable period in 2007. Sales for the nine months ended September 30, 2008 for our Lifeboat segment were \$94.4 million compared to \$100.5 million for the comparable period last year. Sales for the nine months ended September 30, 2008 for our Programmer's Paradise segment were \$39.6 million compared to \$32.2 million for the comparable period last year. The growth in revenue for our Programmer's Paradise segment in the third quarter of 2008 was mainly due to our aggressive pricing and flexible payment options used to win large orders during the quarter.

In the Lifeboat segment, sales for the third quarter of 2008 decreased by 2%, compared to the third quarter of 2007, primarily due to price competition for VMware products, offset, in part, by strong sales growth for our remaining distribution lines. VMware-labeled sales for our Lifeboat segment decreased \$3.2 million as compared to the third quarter of 2007. Excluding VMware, sales increased by \$2.5 million or 13%.

On July 30, 2008, the Company received a notice from VMware to terminate the VMware Distributor Agreement, dated September 20, 2004, between VMware and Lifeboat, effective as of December 31, 2008.



Further, such notice provided that as of October 1, 2008, Lifeboat will cease distributing VMware-labeled products but VMware will accept orders for distributions of products through Programmer's Paradise. Total VMware-labeled distribution sales for Lifeboat amounted to \$8.2 million, or 18% of our overall third quarter 2008 revenue, product gross margin for Lifeboat amounted to \$249,000, or 6% of our overall third quarter 2008 gross margin. VMware-labeled distribution sales for Lifeboat amounted to \$11.4 million, or 27% of our overall third quarter 2007 revenue; product gross margin for Lifeboat amounted to \$527,000, or 13% of our overall third quarter 2007 gross margin. Although VMware will expand its relationship with Programmer's Paradise and TechXtend, we do expect our sales and gross margins to be negatively impacted as a result of this change. We cannot currently estimate the exact impact of this change.

### **Gross Profit**

Gross profit for the quarter ended September 30, 2008 was \$4.3 million compared to \$4.1 million in the third quarter of 2007. Total gross profit for our Lifeboat segment for the quarter ended September 30, 2008 was \$2.6 million compared to \$2.7 million in the third quarter of 2007, representing a 3.5% decrease. Total gross profit for our Programmer's Paradise segment for the quarter ended September 30, 2008 was \$1.6 million compared to \$1.4 million in the third quarter of 2007, representing a 15.7% increase.

For the nine months ended September 30, 2008, gross profit decreased by \$0.6 million to \$12.3 million compared to \$12.9 million in the comparable period in 2007. Programmer's Paradise's gross profit for the nine months ended September 30, 2008 was \$4.5 million compared to \$4.3 million for the first nine months of 2007. Lifeboat's gross profit for the nine months ended September 30, 2008 was \$7.8 million compared to \$8.6 million for the first nine months of 2007. This decrease in gross profit was due to competitive pricing pressures and lower sales volume.

Gross profit margin, as a percentage of net sales, for the quarter ending September 30, 2008 was 9.4% compared to 9.9% in the third quarter of 2007. Gross profit margin for our Programmer's Paradise segment for the third quarter of 2008 was 10.7% compared to 12.9% in the third quarter of 2007. Gross profit margin for our Lifeboat segment for the third quarter of 2008 was 8.7% compared to 8.8% in the third quarter of 2007. Gross profit margin as a percentage of net sales, for the nine months ended September 30, 2008 was 9.2% compared to 9.7% in the comparable period last year.

The decrease in gross profit margin for both segments as a percentage of net sales was primarily caused by continued competitive pricing pressure as well as several large orders won at lower margins.

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

Total selling, general, and administrative ("SG&A") expenses for the third quarter of 2008 were \$3.0 million compared to \$3.0 million in the third quarter of 2007. As a percentage of net sales, SG&A expenses for the third quarter of 2008 were 6.7% compared to 7.1% in the third quarter of 2007. For the nine months ended September 30, 2008, SG&A expenses were \$9.1 million compared to \$9.0 million in the comparable period last year. As a percentage of net sales, SG&A expenses were 6.8% for the nine months ended September 30, 2008 compared to 6.7% in the same period last year.

The Company expects that its SG&A expenses, as a percentage of net sales, may vary by quarter depending on changes in sales volume, as well as the levels of continuing investments in key growth initiatives.

Direct selling costs for the third quarter of 2008 was \$1.4 million compared to \$1.5 million in the third quarter of 2007. Total direct selling costs for our Programmer's Paradise division for the third quarter of 2008 were \$0.7 million compared to \$0.7 million in the third quarter of 2007. Total direct selling costs for our Lifeboat division for the third quarter of 2008 were \$0.7 million compared to \$0.7 million in the third quarter of 2007.



### **Foreign Currency Transactions Gain (Loss)**

The realized foreign exchange loss for the quarter ended September 30, 2008 was \$1,000 compared to a gain of \$1,000 for the comparable period in 2007. For the nine months ended September 30 2008 the realized foreign exchange gain was \$6,000 compared to \$1,000 in the comparable period last year. Foreign exchange gains and losses primarily result from our trade activity with our Canadian subsidiary. Although the Company does maintain bank accounts in Canadian currencies to reduce currency exchange fluctuations, the Company is, nevertheless, subject to risks associated with such fluctuations.

### **Income Taxes**

For the quarter ended September 30, 2008, the Company recorded a provision for income taxes of \$571,000, which consists of a provision of \$470,000 for U.S. federal income taxes as well as \$7,000 for state and local taxes and \$36,000 for Canadian taxes, and a deferred tax expense of \$58,000. For the quarter ended September 30, 2007, the Company recorded a provision for income taxes of \$600,000, which consisted of a provision of \$328,000 for U.S. federal income taxes as well as a \$21,000 provision for state and local taxes and \$38,000 for Canadian taxes, and a deferred tax expense of \$213,000.

For the nine months ended September 30, 2008 the Company recorded a provision for income taxes of \$1,529,000 which consists of a provision of \$1,009,000 for U.S. federal income taxes as well as a \$103,000 provision for state and local taxes and \$164,000 for Canadian taxes, and a deferred tax expense of \$253,000. For the nine months ended September 30, 2007 the Company recorded a provision for income taxes of \$1,898,000, which consisted of a provision of \$638,000 for U.S. federal income taxes as well as a \$75,000 provision for state and local taxes and \$153,000 for Canadian taxes, and a deferred tax expense of \$1,032,000.

### **Liquidity and Capital Resources**

During the first nine months of 2008 our cash and cash equivalents decreased by \$1.0 million to \$13.2 million at September 30, 2008, from \$14.2 million at December 31, 2007. During the first nine months of 2008, net cash provided by operating activities amounted to \$2.4 million; net cash used in investing activities amounted to \$0.3 million and net cash used in financing activities amounted to \$3.1 million.

Net cash provided by operating activities in the first nine months of 2008 was \$2.4 million and primarily resulted from a \$0.8 million increase in accounts payable and net income excluding non-cash charges of \$3.4 million offset partially by a \$2.0 million increase in accounts receivable and an increase of \$0.2 million in prepaid expenses.

Net cash used in investing activities in the first nine months of 2008 amounted to \$0.3 million. This primarily resulted from \$0.3 million of capital expenditures. The balance was made up of net purchases of available-for-sale securities. These securities are highly rated and highly liquid. These securities are classified as available-for-sale securities in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities," and as a result, unrealized gains and losses are reported as part of accumulated other comprehensive income (loss).

Net cash used in financing activities in the first nine months of 2008 amounted to \$3.1 million. This consisted of dividends paid of \$2.1 million and treasury share buy-backs of \$1.2 million partially offset by proceeds from stock option exercises of \$0.2 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 stock buyback program and dividends if declared by the board of directors. Our business plan, furthermore, contemplates continuing to use our cash to pay vendors promptly in order to obtain more favorable conditions.

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

Contractual Obligations as of September 30, 2008 were summarized as follows:

(Dollars in thousands)

Contractual Obligations	Total	Payment due by Period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	—	—	—	—	—
Capital Lease Obligations	—	—	—	—	—
Operating Leases (1)	\$ 1,484	\$ 336	\$ 1,079	\$ 69	—
Purchase Obligations	—	—	—	—	—
Other Long Term Obligations	—	—	—	—	—
<b>Total Contractual Obligations (2)</b>	<b>\$ 1,484</b>	<b>\$ 336</b>	<b>\$ 1,079</b>	<b>\$ 69</b>	<b>\$ —</b>

(1) Operating leases primarily relates to the leases of the space used for our operations in Shrewsbury, New Jersey, and Mississauga, Canada and our former sales office (net of sublease income), in Hauppauge, New York. The commitments for operating leases include the minimum rent payments and a proportionate share of operating expenses and property taxes.

(2) In addition to the contractual obligations disclosed in this table, we have net unrecognized tax benefits totaling \$78,000 with respect to which, based on uncertainties associated with the items, we are unable to make reasonably reliable estimates of the period of potential cash settlements, if any, with taxing authorities. As a result, such potential liabilities are not listed in the table.

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

As of September 30, 2008, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

### Critical Accounting Policies and Estimates

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

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

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

The Company records revenues from sales transactions when title to products sold passes to the customer. Usual sales terms are FOB shipping point, at which time title and risk of loss has passed to the customer and delivery has occurred. Revenue is recognized in accordance with Statements of Position (“SOP”) 97-2 “Software Revenue Recognition”, Staff Accounting Bulletin (“SAB”) No. 101 and No. 104, “Revenue Recognition” and Emerging Issues Task Force (“EITF”) 99-19, “Reporting Revenue Gross as a Principal versus Net as an Agent”. The majority of the Company’s revenues relates to physical products and is recognized on a gross basis with the selling price to the customer recorded as net sales with the acquisition cost of the product to the Company recorded as cost of sales. At the time of sale, the Company also records an estimate for sales returns based on historical experience. Certain software maintenance products, third party services and extended warranties sold by the Company (for which the Company is not the primary obligor) are recognized on a net basis. Accordingly, such revenues are recognized in net sales either at the time of sale or over the contract period, based on the nature of the contract, at the net amount retained by the Company, with no cost of goods sold.

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 net sales in accordance with EITF 02-16, “Accounting for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor’s Products)”.

The Company believes the following critical accounting policies used in the preparation of its consolidated financial statements affect its more significant judgments and estimates. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company’s customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required. The Company 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 were 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. We make certain assumptions in order to value and expense our various share-based payment awards. In connection with valuing stock options, we use the Black-Scholes model, which requires us to estimate certain subjective assumptions. The key assumptions we make are: the expected volatility of our stock; the expected term of the award; and the expected forfeiture rate. In connection with our restricted stock programs 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.

#### **Recent Accounting Pronouncements**

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS No. 162”), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The FASB believes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.” The Company does not expect the adoption of SFAS No. 162 to have a material effect on its condensed consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities” (“EITF 03-6-1”). EITF 03-6-1 applies to the

calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents under Statement No. 128, "Earnings Per Share." Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents will be considered participating securities and will be included in the computation of earnings per share pursuant to the two-class method. The effective date of EITF 03-6-1 is for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those years. Early adoption is not permitted. Once effective, all prior period earnings per share data presented will be adjusted retrospectively. The Company is currently evaluating the potential impact, if any, the adoption of EITF 03-6-1 may have on its condensed consolidated financial statements.

### **Certain Factors Affecting Operating Results**

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

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

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

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

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

Furthermore, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor, increased competition, reduced vendor incentives and trade credit, higher postage and operating expenses, and other developments, could have a significant impact on the market price of the Company's Common Stock.

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

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

The Company's \$9.7 million investments in marketable securities are primarily in highly liquid U.S. government securities. The remaining cash balance is invested in short-term savings accounts with our primary bank, JPMorgan Chase Bank. As such, the risk of significant changes in the value of our cash invested is minimal.

#### **Item 4T. 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 of September 30, 2008. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Accounting Officer (principal financial officer). As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective as of September 30, 2008. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

*Changes in Internal Control Over Financial Reporting.* As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Accounting Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the quarter ended September 30, 2008, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation during the quarter ended September 30, 2008, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1- Legal Proceedings**

None.

**Item 2- Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth the purchase of Common Stock by the Company and its affiliated purchasers during the third quarter of 2008.

**ISSUER PURCHASE OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid Per Share (3)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (4)
July 1, 2008- July 31, 2008	—	—	—	—	—
August 1, 2008- August 31, 2008	14,316	\$ 8.49	9,854	\$ 8.33	617,792
September 1, 2008- September 30, 2008	12,166	\$ 7.65	12,166	\$ 7.65	605,626
<b>Total</b>	<b>26,482</b>	<b>\$ 8.10</b>	<b>22,020</b>	<b>\$ 7.95</b>	<b>605,626</b>

(1) Includes 4,462 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of restricted common stock.

(2) Average price paid per share reflects the closing price of Wayside Technology Group, Inc. common stock on the business date the shares were surrendered by the employee stockholder to satisfy individual tax withholding obligations upon vesting of restricted common stock or the price the stock paid on the open market purchase, as applicable.

(3) Average price paid per share reflects the price of Wayside Technology Group, Inc. common stock purchased on the open market.

(4) On October 9, 2002, our Board of Directors adopted a stock repurchase program whereby the Company was authorized to repurchase up to 500,000 shares of our common stock from time to time. On July 31, 2008, the Company approved the increase of its common stock repurchase program by 500,000 shares. The company expects to purchase shares from time to time in the market or otherwise subject to market conditions.

The stock repurchase program does not have an expiration date.

**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 Kevin T. Scull, the 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 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 Chief Accounting Officer (principal financial officer) of the Company.  
Page 20 of 25

---

**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

November 13, 2008

By: /s/ Simon F. Nynens

\_\_\_\_\_  
Date

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

November 13, 2008

By: /s/ Kevin T. Scull

\_\_\_\_\_  
Date

\_\_\_\_\_  
Kevin T. Scull, Vice President  
and Chief Accounting Officer

Page 21 of 25

---