

Wayside Technology Group, Inc.  
Form 10-Q  
May 10, 2010

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, 2010

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.)

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," and "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Check One:

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

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 4,810,232 outstanding shares of Common Stock, par value \$.01 per share, as of May 6, 2010, not including 474,268 shares classified as treasury stock.

---

PART I – FINANCIAL INFORMATION  
WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share amounts)

	March 31, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$9,410	\$8,560
Marketable securities	6,550	7,571
Accounts receivable, net of allowances of \$1,172 and \$1,097, respectively	27,822	27,040
Inventory, net	1,230	967
Prepaid expenses and other current assets	788	998
Deferred income taxes	638	677
<b>Total current assets</b>	<b>46,438</b>	<b>45,813</b>
Equipment and leasehold improvements, net	444	432
Accounts receivable-long-term	5,043	6,901
Other assets	40	38
Deferred income taxes	414	483
<b>Total assets</b>	<b>\$52,379</b>	<b>\$53,667</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$27,770	\$29,230
Other liabilities	78	78
<b>Total liabilities</b>	<b>27,848</b>	<b>29,308</b>
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value; 10,000,000 shares authorized, 5,284,500 shares issued; 4,824,953 and 4,688,844 shares outstanding, respectively	53	53
Additional paid-in capital	24,515	24,826
Treasury stock, at cost, 459,547 and 595,656 shares, respectively	(3,060)	(3,555)
Retained earnings	2,640	2,727
Accumulated other comprehensive income	383	308
<b>Total stockholders' equity</b>	<b>24,531</b>	<b>24,359</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$52,379</b>	<b>\$53,667</b>

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)

(In thousands, except per share data)

	Three months ended	
	2010	March 31, 2009
Net sales	\$40,358	\$31,750
Cost of sales	36,390	28,283
Gross profit	3,968	3,467
Selling, general and administrative expenses	3,030	2,651
Income from operations	938	816
Interest income, net	108	148
Realized foreign exchange gain (loss)	1	(1 )
Income before income tax provision	1,047	963
Provision for income taxes	424	385
Net income	\$623	\$578
Net income per common share - Basic	\$0.14	\$0.13
Net income per common share – Diluted	\$0.14	\$0.13
Weighted average common shares outstanding-Basic	4,371	4,386
Weighted average common shares outstanding-Diluted	4,425	4,413
Dividends paid per common share	\$0.15	\$0.15

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

WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND  
 COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands, except share amounts)

	Common Stock		Additional	Treasury	Amount	Retained	Accumulated	Total
	Shares	Amount	Paid-In	Shares		Earnings	Other	
			Capital				Income	
							(loss)	
Balance at January 1, 2010	5,284,500	\$ 53	\$ 24,826	595,656	\$ (3,555)	\$ 2,727	\$ 308	\$ 24,359
Net Income						623		623
Other comprehensive income								
:								
Translation adjustment							80	80
Unrealized loss on available- for-sale securities							(5 )	(5 )
Comprehensive income								698
Dividends paid						(710 )		(710 )
Share-based compensation expense			301					301
Restricted stock grants			(612 )	(150,000)	612			-
Treasury shares repurchased				13,891	(117 )			(117 )
Balance at March 31, 2010	5,284,500	\$ 53	\$ 24,515	459,547	\$ (3,060)	\$ 2,640	\$ 383	\$ 24,531

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)  
(In thousands)

	Three months ended March 31,	
	2010	2009
Net income	\$623	\$578
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	78	78
Bad debt expense	-	9
Deferred income taxes	109	113
Share-based compensation expense	301	184
Changes in operating assets and liabilities:		
Accounts receivable	1,136	(2,576 )
Inventory	(264 )	247
Prepaid expenses and other current assets	211	211
Accounts payable and accrued expenses	(1,489 )	244
Net change in other assets and liabilities	(4 )	24
Net cash provided by (used) in operating activities	701	(888 )
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,827 )	(4,663 )
Redemptions of available-for-sale securities	2,843	4,240
Capital expenditures	(89 )	(56 )
Net cash provided by (used in) provided by investing activities	927	(479 )
Cash flows from financing activities:		
Dividend paid	(710 )	(692 )
Treasury stock repurchased	(117 )	(27 )
Tax expense from share- based compensation	-	(20 )
Net cash used in financing activities	(827 )	(739 )
Effect of foreign exchange rate on cash	49	(27 )
Net increase (decrease) in cash and cash equivalents	850	(2,133 )
Cash and cash equivalents at beginning of period	8,560	9,349
Cash and cash equivalents at end of period	\$9,410	\$7,216
Supplementary disclosure of cash flow information:		
Income taxes paid	\$222	\$649

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, 2010

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, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the opinion of the Company's management, all adjustments that are of a normal recurring nature, considered necessary for fair presentation, have been included. Actual results may differ from these estimates under different assumptions or conditions. The unaudited condensed consolidated statements of 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, 2009.

2. In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, "Fair Value Measurements and Disclosures: Improving Disclosures About Fair Value Measurements." This FASB requires additional disclosures about the fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements should be presented separately. ASU 2010-06 is effective for interim and annual financial periods beginning after December 15, 2009, and did not have a material impact on the Company's financial statements.

3. Assets and liabilities of the Company's Canadian subsidiary have been translated at current exchange rates, and related sales and expenses have been translated at average rates of exchange in effect during the period. The sales from our Canadian operations in the first three months of 2010 was \$3.4 million as compared to \$2.6 million for the first three months of 2009.

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 now codified FASB ASC Topic 220, "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 ASC Topic 985-605 "Software Revenue Recognition" and ASC Topic 605-10-S99, and ASC Topic 605 -45, "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 reduction in cost of sales in accordance with ASC Topic 605-50 "Accounting by a Customer (including reseller) for Certain Consideration Received from a Vendor."

7. The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value at March 31, 2010 and December 31, 2009, because of the relative short maturity of these instruments.

Investments in available-for-sale securities at March 31, 2010 were (in thousands):

	Cost	Market value	Unrealized Gain (loss)
U.S. Government Securities	\$2,024	\$2,024	\$ -
Certificates of deposit	4,541	4,526	\$ (15 )
Total Marketable securities	\$6,565	\$6,550	\$ (15 )

The cost and market value of the Company's investments at March 31, 2010 by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$6,565	\$6,550

Investments in available-for-sale securities at December 31, 2009 were (in thousands):

	Cost	Market value	Unrealized Gain (loss)
U.S. Government Securities	\$4,064	\$4,064	\$ -
Certificates of deposit	3,517	3,507	\$ (10 )
Total Marketable securities	\$7,581	\$7,571	\$ (10 )

The cost and market value of the Company's investments at December 31, 2009 by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$7,581	\$7,571

8. Effective January 1, 2008, the Company adopted FASB ASC Topic 820 "Fair Value Measurement and Disclosure", which establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. The Company uses the following methods for determining fair value in accordance with ASC Topic 820. For assets and liabilities that are measured using quoted prices in active markets for the identical asset or liability, the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs (Level 1). Assets and liabilities that are measured using significant other observable inputs are valued by reference to similar assets or liabilities, such as quoted prices

for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (Level 2). For all remaining assets and liabilities for which there are no significant observable inputs, fair value is derived using an assessment of various discount rates, default risk, credit quality and the overall capital market liquidity (Level 3).

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

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

(In thousands) Description	Balance at March 31, 2010	Fair Value Measurements at March 31, 2010 Using		
		Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Securities	\$2,024	\$2,024	\$-	\$-
Certificates of deposit	\$4,526	\$-	\$4,526	\$-

(In thousands) Description	Balance at December 31, 2009	Fair Value Measurements at December 31, 2009 Using		
		Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Securities	\$4,064	\$4,064	\$-	\$-
Certificates of deposit	\$3,507	\$-	\$3,507	\$-

U.S. Government Securities - U.S. government securities are valued using quoted market prices. Accordingly, U.S. government securities are categorized in Level 1 of the fair value hierarchy.

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

9. Balance Sheet Detail – (in thousands):

Equipment and leasehold improvements consist of the following as of March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Equipment	\$2,612	\$2,528
Leasehold improvements	559	549
	3,171	3,077
Less accumulated depreciation and amortization	(2,727 )	(2,645 )
	\$444	\$432

Accounts payable and accrued expenses consist of the following as of March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Trade accounts payable	\$26,199	\$27,552

Other accrued expenses	1,571	1,678
	\$27,770	\$29,230

Accumulated other comprehensive income consists of the following as of March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
Foreign currency translation adjustments	\$398	\$318
Unrealized gain (loss) on marketable securities	(15 )	(10 )
	\$383	\$308

10. 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 share and per share data):

	Three months ended March 31,	
	2010	2009
Numerator:		
Net income	\$623	\$578
Denominator:		
Weighted average shares (Basic)	4,371	4,386
Dilutive effect of outstanding options and nonvested shares of restricted stock	54	37
Weighted average shares including assumed conversions (Diluted)	4,425	4,413
Basic net income per share	\$0.14	\$0.13
Diluted net income per share	\$0.14	\$0.13

11. The Company had no major vendors that accounted for more than 10% of total purchases for the three months ended March 31, 2010. The Company had two major vendors that accounted for 14.3% and 12.1% of total purchases, respectively, during the three months ended March 31, 2009. The Company had one major customer that accounted for 17.1% and 11.0% of total net sales during the three months ended March 31, 2010 and 2009, respectively and 18.2% of total accounts receivable as of March 31, 2010.

12. 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 2006. 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 March 31, 2010. 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):

	Three months ended			
	March 31,			
	2010		2009	
Current:				
Federal	\$215		\$202	
State	62		49	
Canada	38		21	
	315		272	
Deferred tax expense	109		113	
	\$424		\$385	
Effective tax rate	40.5	%	40.0	%

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

	Federal, State and Foreign Tax
Balance at January 1, 2010	\$78
Additions based on tax positions related to current year	-
Net Unrecognized Tax Benefit at March 31, 2010	\$78

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

13. 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 March 31, 2010, the number of shares of common stock available for future award grants to employees and directors under this plan is 123,500.

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 CEO in accordance with his employment agreement. These 200,000 restricted shares vest over 120 months. The remaining 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.

During 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.

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

In February 2010, the Company granted a total of 150,000 shares of restricted stock to officers, directors and employees. These shares vest over 60 months.



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 2010 in options outstanding for the Company's combined plan (i.e., the 2006 Plan, the 1995 Non-Employee Director Plan and the 1995 Stock Option Plan) were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (\$M)(1)
Outstanding at January 1, 2010	392,890	\$8.12		
Granted in 2010	-	-		
Canceled in 2010	-	-		
Exercised in 2010	-	-		
Outstanding at March 31, 2010	392,890	\$8.12	4.0	\$0.3
Exercisable at March 31, 2010	392,890	\$8.12	4.0	\$0.3

(1) The intrinsic value is calculated as the difference between the market value on the last trading day of the quarter (March 31, 2010) and the exercise price of the options. The market value as of March 31, 2010 was \$9.14 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 2006 Plan as of March 31, 2010, and changes during the three months then ended is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2010	327,250	\$11.03
Granted in 2010	150,000	8.57
Vested in 2010	(28,625 )	10.51
Forfeited in 2010	-	-
Nonvested shares at March 31, 2010	448,625	\$10.24

As of March 31, 2010, there is approximately \$4.6 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 4.7 years.

For the three months ended March 31, 2010 and 2009, the Company recognized share-based compensation cost of approximately \$301,000 and \$184,000, respectively, which is included in general and administrative expense.

14. 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 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 ASC Topic 280, 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.

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

	Three months ended March 31,	
	2010	2009
Revenue:		
Programmer's Paradise	\$11,241	\$11,507
Lifeboat	29,117	20,243
	40,358	31,750
Gross Profit:		
Programmer's Paradise	\$1,323	\$1,468
Lifeboat	2,645	1,999
	3,968	3,467
Direct Costs:		
Programmer's Paradise	\$711	\$670
Lifeboat	838	652
	1,549	1,322
Segment Income:		
Programmer's Paradise	\$612	\$798
Lifeboat	1,807	1,347
Segment Income	2,419	2,145
Corporate general and administrative expenses	\$1,481	\$1,329
Interest income	108	148
Foreign currency translation gain (loss)	1	(1)
Income before taxes	\$1,047	\$963
Selected Assets By Segment:		
Programmer's Paradise	\$18,109	\$11,872
Lifeboat	15,979	10,206
Corporate assets	18,291	25,574
Segment Selected Assets	\$52,379	\$47,652

## 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, 2009, 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 2009 Annual Report on Form 10-K.

## 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 end-users through corporate resellers, VARs, consultants and systems integrators.

We believe that as a result of the ongoing general economic downturn, our current and potential customers are delaying or reducing technology purchases, resulting in longer sales cycles, slower adoption of new technologies and increased price competition. The increase in price competition has led to lower gross profit margins as a percentage of sales. For more details on the possible impact of conditions in the financial markets and the economic downturn on us, see "--Liquidity and Capital Resources" below.

More generally, 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 loss of any major vendor; condition of the software industry in general; shifts in demand for software products; our customers' ability to meet their payment obligations in a timely manner; 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 condensed consolidated statements of earnings expressed as a percentage of net sales. This comparison of financial results is not necessarily indicative of future results:

	Three months ended			
	2010		2009	
		%		%
Net sales	100.0	%	100.0	%
Cost of sales	90.2		89.1	
Gross profit	9.8		10.9	
Selling, general and administrative expenses	7.5		8.3	
Income from operations	2.3		2.6	
Interest income, net	0.3		0.4	

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

Realized foreign currency exchange gain(loss)		-		-
Income before income taxes	2.6		3.0	
Provision for income taxes	1.1		1.2	
Net income	1.5	%	1.8	%

Page 13 of 22

---

## Net Sales

Net sales for the first quarter of 2010 increased 27% or \$8.6 million to \$40.4 million compared to \$31.7 million for the same period in 2009. Total sales for the first quarter of 2010 for our Lifeboat segment were \$29.1 million compared to \$20.2 million in the first quarter of 2009, representing an increase of \$8.9 million or 44%. Total sales for the first quarter of 2010 for our Programmer's Paradise segment were \$11.2 million compared to \$11.5 million in the first quarter of 2009, representing a 2% decrease.

Sales from our Lifeboat segment showed strong growth. The 44% increase in net sales in the first quarter of 2010 compared to 2009 was mainly a result of our continued focus on the expanding virtual infrastructure-centric business, the addition of several key product lines, and the strengthening of our account penetration.

## Gross Profit

Gross Profit for the quarter ending March 31, 2010 was \$4.0 million compared to \$3.5 million in the first quarter of 2009, a 14% increase. Total gross profit for our Lifeboat segment was \$2.7 million compared to \$2.0 million in the first quarter of 2009, representing a 32% increase. This increase in gross profit was due to aggressive sales volume growth within our Lifeboat segment. Total gross profit for our Programmer's Paradise segment was \$1.3 million compared to \$1.5 million in the first quarter of 2009, representing a 10% decrease. This decrease was primarily due to the lower sales volume and competitive pricing pressure.

Total gross profit margin as a percentage of net sales decreased from 10.9% for the three months ended March 31, 2009 to 9.8% for the three months ended March 31, 2010. The increase in gross profit dollars and the decrease in gross profit margin as a percentage of net sales are primarily caused by the aggressive sales growth within our Lifeboat segment, driven in part by our having won several large bids based on aggressive pricing, which we plan to continue to do. Gross profit margin for our Lifeboat segment was 9.1% compared to 11.8% for our Programmer's Paradise segment in the first quarter of 2010. The decrease in gross margin of our Lifeboat segment to 9.1% from 9.9% in the first quarter of 2009 mainly reflects the competitive nature of our business and a shift in our product mix.

## Selling, General and Administrative Expenses

Total selling, general, and administrative ("SG&A") expenses for the first quarter of 2010 were \$3.0 million compared to \$2.7 million in the first quarter of 2009, which was mainly the result of an increase in employee related expenses (salaries, commissions, bonus and benefits) of \$0.2 million and an increase in stock compensation of \$0.1 million. As a percentage of net sales, SG&A expenses for the first quarter of 2010 were 7.5% compared to 8.3% in the first quarter of 2009.

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 information technology and marketing. We continue to monitor our SG&A expenses closely.

Direct selling costs (a component of SG&A) for the first quarter of 2010 were \$1.5 million compared to \$1.3 million in the first quarter of 2009. Total direct selling costs for our Programmer's Paradise segment for the first quarter of 2010 were \$0.7 million compared to \$0.7 million in the same period in 2009. Total direct selling costs for our Lifeboat segment for the first quarter of 2010 were \$0.8 million compared to \$0.7 million in the first quarter of 2009.

### Foreign Currency Transactions Gain (Loss)

The realized foreign exchange gain for the quarter ended March 31, 2010 was \$1,000 compared to a foreign exchange loss of \$1,000 for the same period in 2009. 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 March 31, 2010, the Company recorded a provision for income taxes of \$424,000 which consists of a provision of \$215,000 for U.S. federal income taxes as well as a \$62,000 provision for state and local taxes and \$38,000 for Canadian taxes, and a deferred tax expense of \$109,000. For the quarter ended March 31, 2009, the Company recorded a provision for income taxes of \$384,000, which consists of a provision of \$202,000 for U.S. federal income taxes as well as \$49,000 for state and local taxes and \$21,000 for Canadian taxes, and a deferred tax expense of \$113,000.

### Liquidity and Capital Resources

During the first three months of 2010 our cash and cash equivalents increased by \$0.9 million to \$9.4 million at March 31, 2010, from \$8.5 million at December 31, 2009. During the first three months of 2010, net cash provided by operating activities amounted to \$0.7 million; net cash provided by investing activities amounted to \$0.9 million and net cash used in financing activities amounted to \$0.8 million.

Net cash provided by operating activities in the first three months of 2010 was \$0.7 million and primarily resulted from a \$1.1 million decrease in accounts receivable and \$1.1 million from net income excluding non-cash charges partially offset by a decrease in accounts payable of \$1.5 million. The decrease in accounts receivable and accounts payable was mainly due to lower sales volume compared to the fourth quarter of 2009.

Net cash provided by investing activities in the first three months of 2010 amounted to \$0.9 million. This primarily resulted from net sales of \$1.0 million in marketable securities. These securities are highly rated and highly liquid. These securities are classified as available-for-sale securities in accordance with ASC Topic 320 "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 sales of \$1.0 million in marketable securities were partially offset by \$0.1 million of capital expenditures.

Net cash used in financing activities in the first three months of 2010 amounted to \$0.8 million. This consisted primarily of dividends paid of \$0.7 million and treasury stock purchases 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 stock buyback program and dividends if declared by the board of directors. Our business plan furthermore contemplates our continuing use of our cash to pay vendors promptly in order to obtain more favorable terms.

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. Currently we 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.

We believe that as a result of the ongoing general economic downturn, our current and potential customers are delaying or reducing technology purchases, resulting in longer sales cycles, slower adoption of new technologies and increased price competition. The increase in price competition has led to lower gross profit margins as a percentage of sales. In addition, the ongoing disruption in the global financial markets may adversely affect the ability of some of our customers to obtain financing. If this trend continues, it may make it more difficult for some of our customers to perform their obligations under our agreements with them, which in turn could delay the receipt of payment from those customers. Limited access to financing may also affect our vendors' ability to supply products, and could result in changes in vendor terms and conditions, such as rebates, cash discounts and cooperative marketing efforts, which may result in downward pressure on our gross margins. The realization of any or all of these risks could have a material adverse effect on our business, results of operation and financial condition and on our stock price.

Contractual Obligations as of March 31, 2010 were summarized as follows:

(Dollars in thousands)

Payment due by Period		Less than 1			More than 5
Contractual Obligations	Total	year	1-3 years	3-5 years	years
Long-Term Debt	-	-	-	-	-
Capital Lease Obligations	-	-	-	-	-
Operating Leases (1)	\$874	\$334	\$540	-	-
Purchase Obligations	-	-	-	-	-
Other Long Term Obligations	-	-	-	-	-
Total Contractual Obligations (2)	\$874	\$334	\$540	\$-	\$-

(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 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.

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 in the Canadian Dollar to U.S. Dollar exchange rate.

#### Off-Balance Sheet Arrangements

As of March 31, 2010, 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

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 GAAP. 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, and contingencies and litigation.

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

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.

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 expense 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 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 January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, "Fair Value Measurements and Disclosures: Improving Disclosures About Fair Value Measurements." This FASB requires additional disclosures about the fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements should be presented separately. ASU 2010-06 is effective for interim and annual financial periods beginning after December 15, 2009, and did not have a material impact on the Company's financial statements.

#### 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 statements regarding industry prospects and the Company's expected financial position, results of operations (including sales and gross profit margin), 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," "es" and "continue" or 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 could cause actual results to differ materially from those indicated by such forward-looking statements, including, but not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, product mix, market conditions, contribution of key vendor relationships and support programs, as well as factors that affect the software industry in general and other factors. We strongly urge current and prospective investors to carefully consider the cautionary statements and risks contained in this report and our annual report on Form 10-K for the year ended December 31, 2009.

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. Unless otherwise required by law, 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.

**Stock Volatility.** The technology sector of the United States stock markets continues to experience substantial volatility. Numerous conditions, which impact the technology sector or the stock market in general, and/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. 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 \$6.5 million investments in marketable securities at March 31, 2010 are invested in highly rated and liquid U.S. government securities and insured certificates of deposit. 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 4. Controls and Procedures

**Evaluation of Disclosure Controls and Procedures.** As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures", as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of 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, 2010, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Page 19 of 22

---

## PART II - OTHER INFORMATION

## 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 first quarter of 2010.

## 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)
January 1, 2010- January 31, 2010	-	-	-	-	501,786
February 1, 2010- February 28, 2010	13,856 (1)	\$8.45	3,475	\$8.45	498,311
March 1, 2010- March 31, 2010	35	\$8.31	35	\$8.31	498,276
Total	13,891	\$ 8.45	3,510	\$8.09	498,276

(1) Includes 10,381 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of restricted common stock. These shares are not included in the stock repurchase referred to in footnote (4) below.

(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 of 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
- 10.78 Restricted Stock Letter, dated February 9, 2010, between Kevin Scull and Wayside Technology Group, Inc.
- 10.79 Restricted Stock Letter, dated February 9, 2010, between Richard Bevis and Wayside Technology Group, Inc.
- 10.80 Restricted Stock Letter, dated February 9, 2010, between Simon Nynens and Wayside Technology Group, Inc.
- 10.81 Restricted Stock Letter, dated February 9, 2010, between Vito Legrottaglie and Wayside Technology Group, Inc.
- 10.82 Restricted Stock Letter, dated February 9, 2010, between Daniel Jamieson and Wayside Technology Group, Inc.
- 10.83 Restricted Stock Letter, dated February 9, 2010, between Shawn Giordano and Wayside Technology Group, Inc.
- 10.84 Restricted Stock Letter, dated February 9, 2010, between Edwin Morgens and Wayside Technology Group, Inc.
- 10.85 Restricted Stock Letter, dated February 9, 2010, between William Willett and Wayside Technology Group, Inc.
- 10.86 Restricted Stock Letter, dated February 9, 2010, between Allan Weingarten and Wayside Technology Group, Inc.
- 10.87 Restricted Stock Letter, dated February 9, 2010, between Mark Boyer and Wayside Technology Group, Inc.
- 10.88 Restricted Stock Letter, dated February 9, 2010, between Duff Meyercord and Wayside Technology Group, Inc.
- 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



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

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 21 of 22

---

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 10, 2010  
Date

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

May 10, 2010  
Date

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