

Wayside Technology Group, Inc.  
Form 10-Q  
November 02, 2012

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

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(Address of principal executive offices)

(732) 389-8950

Registrant's Telephone Number

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

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

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

Check One:

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

There were 4,761,794 outstanding shares of common stock, par value \$.01 per share, ( Common Stock ) as of October 30, 2012, not including 522,706 shares classified as treasury stock

## PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

## WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 10,745	\$ 9,202
Marketable securities	4,585	5,375
Accounts receivable, net of allowances of \$1,666 and \$1,513, respectively	49,051	47,066
Inventory, net	1,509	1,240
Prepaid expenses and other current assets	1,115	1,997
Deferred income taxes	352	329
Total current assets	67,357	65,209
Equipment and leasehold improvements, net	333	458
Accounts receivable-long-term	10,183	8,889
Other assets	72	54
Deferred income taxes	201	251
Total assets	\$ 78,146	\$ 74,861
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 46,782	\$ 45,796
Current portion - capital lease obligation	76	76
Total current liabilities	46,858	45,872
Long- term portion- capital lease obligation		55
Total liabilities	46,858	45,927
Commitments and contingencies		
Stockholders equity		
Common Stock, \$.01 par value; 10,000,000 shares authorized, 5,284,500 shares issued; 4,761,794 and 4,679,878 shares outstanding, respectively	53	53
Additional paid-in capital	27,431	26,725
Treasury stock, at cost, 522,706 and 604,622 shares, respectively	(4,994)	(4,991)
Retained earnings	8,265	6,818
Accumulated other comprehensive income	533	329
Total stockholders equity	31,288	28,934
Total liabilities and stockholders equity	\$ 78,146	\$ 74,861

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)

	Nine months ended September 30,		Three months ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 211,610	\$ 175,951	\$ 75,534	\$ 63,741
Cost of sales	194,755	159,768	69,836	57,984
Gross profit	16,855	16,183	5,698	5,757
Selling, general and administrative expenses	11,148	10,635	3,611	3,465
Income from operations	5,707	5,548	2,087	2,292
Interest income, net	394	264	140	92
Realized foreign exchange gain	13	1	12	
Income before income tax provision	6,114	5,813	2,239	2,384
Provision for income taxes	2,428	2,248	887	890
Net income	\$ 3,686	\$ 3,565	\$ 1,352	\$ 1,494
Net income per common share - Basic	\$ 0.83	\$ 0.81	\$ 0.30	\$ 0.34
Net income per common share Diluted	\$ 0.80	\$ 0.77	\$ 0.29	\$ 0.33
Weighted average common shares outstanding-Basic	4,467	4,411	4,502	4,406
Weighted average common shares outstanding-Diluted	4,635	4,618	4,643	4,575
Dividends paid per common share	\$ 0.48	\$ 0.48	\$ 0.16	\$ 0.16

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

**WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(In thousands)

	Nine months ended September 30,		Three months ended September 30,	
	2012	2011	2012	2011
Net income	\$ 3,686	\$ 3,565	\$ 1,352	\$ 1,494
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	197	(141)	204	(229)
Unrealized gain (loss) on available- for -sale marketable securities	7	(12)	2	(16)
Other comprehensive income (loss)	204	(153)	206	(245)
Comprehensive income	\$ 3,890	\$ 3,412	\$ 1,558	\$ 1,249

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

**WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

(Unaudited)

(Dollars in thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Shares	Treasury Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2012	5,284,500	\$ 53	\$ 26,725	604,622	\$ (4,991)	\$ 6,818	\$ 329	\$ 28,934
Net income						3,686		3,686
Translation adjustment							197	197
Unrealized gain on available-for-sale securities							7	7
Dividends paid						(2,239)		(2,239)
Stock options exercised			124	(63,500)	306			430
Share-based compensation expense			743					743
Restricted stock grants (net of forfeitures)			(332)	(68,475)	332			
Tax benefit from share-based compensation			171					171
Treasury shares repurchased				50,059	(641)			(641)
Balance at September 30, 2012	5,284,500	\$ 53	27,431	522,706	(4,994)	8,265	533	31,288

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)

	Nine months ended September 30,	
	2012	2011
Net income	\$ 3,686	\$ 3,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	233	238
Deferred income taxes	26	340
Provision for doubtful accounts receivable	145	105
Share-based compensation expense	743	824
Changes in operating assets and liabilities:		
Accounts receivable	(3,267)	2,786
Inventory	(268)	(266)
Prepaid expenses and other current assets	885	(267)
Accounts payable and accrued expenses	923	(5,779)
Net change in other assets and liabilities	(21)	(2)
Net cash provided by operating activities	3,085	1,544
Cash flows from investing activities:		
Purchases of available-for-sale securities	(5,575)	(4,161)
Redemptions of available-for-sale securities	6,373	4,280
Capital expenditures	(105)	(199)
Net cash provided by (used in) investing activities	693	(80)
Cash flows from financing activities:		
Dividend paid	(2,239)	(2,247)
Treasury stock repurchased	(641)	(1,437)
Tax benefit from share-based compensation	171	205
Repayment of capital lease obligations	(55)	(62)
Proceeds from stock option exercises	430	71
Net cash used in financing activities	(2,334)	(3,470)
Effect of foreign exchange rate on cash	99	(92)
Net (decrease) increase in cash and cash equivalents	1,543	(2,098)
Cash and cash equivalents at beginning of period	9,202	10,955
Cash and cash equivalents at end of period	\$ 10,745	\$ 8,857
Supplementary disclosure of cash flow information:		
Income taxes paid	\$ 2,598	\$ 1,931

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, 2012**

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

The preparation of these condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, stock-based compensation, and contingencies and litigation. The Company bases its estimates on its historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the opinion of the Company's management, all adjustments that are of a normal recurring nature, considered necessary for fair presentation, have been included in the accompanying financial statements. The Company's actual results may differ from these estimates under different assumptions or conditions. The unaudited condensed consolidated statements of earnings for the interim periods are not necessarily indicative of results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities Exchange Commission for the year ended December 31, 2011.

2. Assets and liabilities of the Company's foreign subsidiaries have been translated at current exchange rates, and related sales and expenses have been translated at average rates of exchange in effect during the period. The sales from our Canadian operations in the first nine months of 2012 were \$16.8 million as compared to \$13.9 million for the first nine months of 2011. The sales from our Canadian operations for the third quarter of 2012 were \$5.4 million as compared to \$5.1 million for the third quarter of 2011.

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

4. 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 have 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 and 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.

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

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5. 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 in which 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.

6. The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value at September 30, 2012 and December 31, 2011 because of the relative short maturity of these instruments.

Investments in available-for-sale securities at September 30, 2012 were (in thousands):

	Cost	Market value	Unrealized (loss)
Certificates of deposit	\$ 4,597	\$ 4,585	\$ (12)
Total Marketable securities	\$ 4,597	\$ 4,585	\$ (12)

The cost and market value of the Company's investments at September 30, 2012 determined by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$ 4,597	\$ 4,585

Investments in available-for-sale securities at December 31, 2011 were (in thousands):

	Cost	Market value	Unrealized (loss)
Certificates of deposit	\$ 5,394	\$ 5,375	\$ (19)
Total Marketable securities	\$ 5,394	\$ 5,375	\$ (19)

The cost and market value of the Company's investments at December 31, 2011 determined by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$ 5,394	\$ 5,375

7. The Company accounts for the fair value measurement in accordance with FASB ASC Topic 820 Fair Value Measurement and Disclosure, which establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. The Company uses the following methods for determining fair value in accordance with ASC Topic 820. For assets and

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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).

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

(In thousands) Description	Balance at September 30, 2012	Fair Value Measurements at September 30, 2012 Using		
		Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 4,585	\$	\$ 4,585	\$