Wayside Technology Group, Inc.
Form 10-Q
May 01, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

o 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	**13-3136104**
(State or other jurisdiction of incorporation or organization)	(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 x Noo

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 x No o

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:

Large Accelerated Filer o	Accelerated Filero
Non-Accelerated Filer o	Smaller Reporting Company x

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

There were 4,721,970 outstanding shares of common stock, par value $.01 per share, (Common Stock) as of April 29, 2013, not including 562,530 shares classified as treasury stock

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Wayside Technology Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

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

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,591	$ 9,835
Marketable securities		4,411
Accounts receivable, net of allowances of $1,680 and $1,586, respectively	47,970	61,388
Inventory, net	1,629	1,717
Prepaid expenses and other current assets	1,265	1,281
Deferred income taxes	266	280
Total current assets	64,721	78,912
Equipment and leasehold improvements, net	374	375
Accounts receivable-long-term	8,263	11,851
Other assets	153	71
Deferred income taxes	215	236
	$ 73,726	$ 91,445
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 41,687	$ 59,265
Current portion - capital lease obligation	28	55
Total current liabilities	41,715	59,320
Commitments and contingencies		
Stockholders equity		
Common Stock, $.01 par value; 10,000,000 shares authorized, 5,284,500 shares issued; 4,739,358 and 4,740,873 shares outstanding, respectively	53	53
Additional paid-in capital	27,822	27,712
Treasury stock, at cost, 545,142 and 543,627 shares, respectively	(5,692)	(5,373)
Retained earnings	9,586	9,316
Accumulated other comprehensive income	242	417
Total stockholders equity	32,011	32,125
	$ 73,726	$ 91,445

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

Wayside Technology Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(Unaudited)

(Amounts in thousands, except per share data)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Net sales	$ 65,980	$ 66,907
Cost of sales	60,667	61,340
Gross profit	5,313	5,567
Selling, general and administrative expenses	3,917	3,987
Income from operations	1,396	1,580
Other income:		
Interest, net	130	124
Foreign currency transaction gain	5	1
Income before provision for income taxes	1,531	1,705
Provision for income taxes	511	676
Net income	$ 1,020	$ 1,029
Income per common share Basic	$ 0.23	$ 0.23
Income per common share Diluted	$ 0.22	$ 0.22
Weighted average common shares outstanding Basic	4,477	4,427
Weighted average common shares outstanding Diluted	4,602	4,612
Dividends paid per common share	$ 0.16	$ 0.16

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

Wayside Technology Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(Amounts in thousands)

	Three months ended March 31, 2013		Three months ended March 31, 2012	
Net income	$	1,020	$	1,029
Other comprehensive income, net of tax:				
Foreign currency translation adjustment		(186)		68
Reclassification adjustment for loss realized in net income on available-for-sale marketable securities		11		
Unrealized gain on available-for-sale marketable securities				4
Other comprehensive (loss) income		(175)		72
Comprehensive income	$	845	$	1,101

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

Wayside Technology Group, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

(Amounts in thousands, except share amounts)

	Common Stock		Additional Paid-In	Treasury		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Shares	Amount	Earnings	Income	Total
Balance at January 1, 2013	5,284,500	$ 53	$ 27,712	543,627	$ (5,373)	$ 9,316	$ 417	$ 32,125
Net income						1,020		1,020
Translation adjustment							(186)	(186)
Reclassification adjustment for loss realized in net income on available- for-sale marketable securities							11	11
Dividends paid						(750)		(750)
Share-based compensation expense			271					271
Restricted stock grants (net of forfeitures)			(193)	(40,000)	193			
Tax benefit from share-based compensation			32					32
Treasury shares repurchased				41,515	(512)			(512)
Balance at March 31, 2013	5,284,500	$ 53	27,822	545,142	(5,692)	9,586	242	32,011

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

Wayside Technology Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Cash flows from operating activities		
Net income	$ 1,020	$ 1,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	74	81
Deferred income tax expense	34	24
Provision for doubtful accounts receivable	37	95
Share-based compensation expense	271	231
Changes in operating assets and liabilities:		
Accounts receivable	16,872	354
Inventory	88	7
Prepaid expenses and other current assets	14	695
Accounts payable and accrued expenses	(17,548)	(1,341)
Other assets	(82)	10
Net cash provided by operating activities	780	1,185
Cash flows provided by (used in) investing activities		
Purchases of available-for-sale securities	(920)	(680)
Redemptions of available-for-sale securities	5,342	1,225
Purchase of equipment and leasehold improvements	(72)	(57)
Net cash provided by investing activities	4,350	488
Cash flows from financing activities		
Dividends paid	(750)	(743)
Purchase of treasury stock	(512)	(113)
Tax benefit from share-based compensation	32	(39)
Repayment of capital lease obligations	(27)	(21)
Net cash used in financing activities	(1,257)	(916)
Effect of foreign exchange rate on cash	(117)	20
Net increase in cash and cash equivalents	3,756	777
Cash and cash equivalents at beginning of period	9,835	9,202
Cash and cash equivalents at end of period	$ 13,591	$ 9,979
Supplementary disclosure of cash flow information:		
Income taxes paid		
Interest paid	$ 574	$ 1,001
	$ 10	

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

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Wayside Technology Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2013

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

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

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

2. Assets and liabilities of the Company s foreign subsidiaries have been translated at current exchange rates, and related sales and expenses have been translated at average rates of exchange in effect during the period. The sales from our Canadian operations in the first three months of 2013 were $4.8 million as compared to $5.9 million for the first three months of 2012.

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

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

Product delivery to customers occur in a variety of ways, including (i) as physical product shipped from the Company s warehouse, (ii) via drop-shipment by the vendor, or (iii) via electronic delivery for software licenses. The Company leverages drop-ship arrangements with many of its vendors and suppliers to deliver products to customers without having to physically hold the inventory at its warehouse, thereby increasing efficiency and reducing costs. The Company recognizes revenue for drop-ship arrangements on a gross basis. Furthermore, in such drop-ship arrangements, the Company negotiates price with the customer, pays the supplier directly for the product shipped and bears credit risk of collecting payment from its customers. The Company serves as the principal with the customer and, therefore, recognizes the sale and cost of sale of the product upon receiving notification from the supplier that the product has shipped. Maintenance agreements

Wayside Technology Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2013

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

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

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

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

Accounts receivable-long-term 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.

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

There were no available-for-sale securities as of March 31, 2013.

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

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

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

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

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

Wayside Technology Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2013

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

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).

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:

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

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

7. Balance Sheet Detail:

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

	March 31, 2013	**December 31, 2012**
Equipment	$ 2,983	$ 2,913
Leasehold improvements	560	561
	3,543	3,474
Less accumulated depreciation and amortization	(3,169)	(3,099)
	$ 374	$ 375

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

	March 31, 2013	December 31, 2012
Trade accounts payable	$ 38,975	$ 55,734
Accrued expenses	2,712	3,531
	$ 41,687	$ 59,265

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

Wayside Technology Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2013

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

	March 31, 2013	December 31, 2012
Foreign currency translation adjustments	$ 242	$ 428
Unrealized (loss) on marketable securities		(11)
	$ 242	$ 417

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

Among other affirmative covenants set forth in the Loan Agreement, the Company must maintain (i) a ratio of Total Liabilities to Tangible Net Worth (each as defined in the Loan Agreement) of not greater than 2.50 to 1.00, to be tested quarterly and (ii) a minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 2.00 to 1.00. Additionally, the Loan Agreement contains negative covenants related to, among other items, prohibitions against the creation of certain liens, engaging in any business activities substantially different than those currently engaged in by the Company, and paying dividends on Wayside s stock other than (i) dividends payable in its stock and (ii) cash dividends in amounts and frequency consistent with past practice, without first securing the written consent of Citibank. We are in compliance with all covenants at March 31, 2013.

At March 31, 2013, the Company had no borrowings outstanding under the Credit Facility. The weighted average interest rate under the line of credit was approximately 1.70% for the quarter ended March 31, 2013.

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

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

Wayside Technology Group, Inc. and Subsidiaries

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March 31, 2013

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

	Three months ended March 31, 2013	2012
Numerator:		
Net income	$ 1,020	$ 1,029
Denominator:		
Weighted average shares (Basic)	4,477	4,427
Dilutive effect of outstanding options and non-vested shares of restricted stock	125	185
Weighted average shares including assumed conversions (Diluted)	4,602	4,612
Basic net income per share	$ 0.23	$ 0.23
Diluted net income per share	$ 0.22	$ 0.22

10. The Company had one major vendor that accounted for 10.4% of total purchases during the three months that ended March 31, 2013. The Company had one major vendor that accounted for 15.6% of total purchases during the three months ended March 31, 2012. The Company had three major customers that accounted for 14.5%, 14.4% and 11.3%, respectively, of its total net sales during the three months ended March 31, 2013. These same customers accounted for 13.2%, 12.1% and 8.4%, respectively, of total net accounts receivable as of March 31, 2013. The Company had three major customers that accounted for 13.1%, 10.5% and 11.6%, respectively, of total net sales for the three months ended March 31, 2012.

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 2009. The Company s policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

The effective tax rate for the three months ended March 31, 2013 was 33.4% compared with 39.6% for the same period last year. The current quarter was primarily impacted by a change in the state of New Jersey s apportionment rules which lowered our state rate compared with the prior period.

12. The 2012 Stock-Based Compensation Plan (the 2012 Plan) authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The total number of shares of Common Stock initially available for award under the 2012 Plan was 600,000. As of March 31, 2013, the number of shares of Common stock available for future award grants to employees and directors under the 2012 Plan is 593,775.

The 2006 Stock-Based Compensation Plan (the 2006 Plan) authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses, and other equity-based awards. The total number of shares of Common Stock initially available for award under the 2006 Plan was 800,000. As of March 31, 2013, there are no shares of Common Stock available for future award grants to employees and directors under the 2006 Plan.

During 2006, the Company granted a total of 315,000 shares of Restricted Stock to officers, directors and employees. Included in this grant were 200,000 Restricted Shares granted to the Company s CEO in

Wayside Technology Group, Inc. and Subsidiaries

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

accordance with his employment agreement. These 200,000 Restricted Shares vest over 40 equal quarterly installments. The remaining grants of Restricted Stock vest over 20 equal quarterly installments.

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

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

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

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

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

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