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

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, 2010

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 No o

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 o 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 Filer o
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 4,810,232 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
ASSETS		
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
Total current assets	46,438	45,813
Equipment and leasehold improvements, net	444	432
Accounts receivable-long-term	5,043	6,901
Other assets	40	38
Deferred income taxes	414	483
Total assets	$52,379	$53,667
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$27,770	$29,230
Other liabilities	78	78
Total liabilities	27,848	29,308
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
Total stockholders' equity	24,531	24,359
Total liabilities and stockholders' equity	$52,379	$53,667

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 March 31, 2010	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 Paid-In	Treasury		Retained	Accumulated Other Comprehensive Income	
	Shares	Amount	Capital	Shares	Amount	Earnings	(loss)	Total
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).

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:

		Fair Value Measurements at March 31, 2010 Using		
(In thousands) Description	Balance at March 31, 2010	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	$-

		Fair Value Measurements at December 31, 2009 Using		
(In thousands) Description	Balance at December 31, 2009	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,	
Revenue:	2010	2009
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	