

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

Wayside Technology Group, Inc.  
Form 10-Q  
May 12, 2009

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, 2009

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," "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   
Non-Accelerated Filer

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 4,774,362 outstanding shares of Common Stock, par value \$.01 per share, as of May 8, 2009, not including 510,138 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, 2009 (Unaudited)	December 31, 2008
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 7,216	\$ 9,349
Marketable securities	9,758	9,367
Accounts receivable, net of allowances of \$1,010 and \$1,086, respectively	21,266	16,940
Inventory, net	811	1,058
Prepaid expenses and other current assets	564	776
Deferred income taxes	672	712
<b>Total current assets</b>	<b>40,287</b>	<b>38,202</b>
Equipment and leasehold improvements, net	527	549
Accounts receivable-long-term	6,064	7,860
Other assets	39	66
Deferred income taxes	735	808
<b>Total assets</b>	<b>\$ 47,652</b>	<b>\$ 47,485</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 23,747	\$ 23,396
Other liabilities	78	205
<b>Total liabilities</b>	<b>23,825</b>	<b>23,601</b>
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value; 10,000,000 shares authorized, 5,284,500 shares issued; 4,639,786 and 4,643,662 shares outstanding, respectively	53	53
Additional paid-in capital	26,108	26,636
Treasury stock, at cost, 644,714 and 640,838 shares, respectively	(3,410)	(3,383)
Retained Earnings	1,145	567
Accumulated other comprehensive income (loss)	(69)	11
<b>Total stockholders' equity</b>	<b>23,827</b>	<b>23,884</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 47,652</b>	<b>\$ 47,485</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 March 31,	
	2009	2008
Net sales	\$ 31,750	\$ 40,506
Cost of sales	28,283	36,761
Gross profit	3,467	3,745
Selling, general and administrative expenses	2,651	2,942
Income from operations	816	803
Interest income, net	148	234
Realized foreign exchange gain (loss)	(1)	3
Income before income tax provision	963	1,040
Provision for income taxes	385	411
Net income	\$ 578	\$ 629
Net income per common share - Basic	\$ 0.13	\$ 0.14
Net income per common share – Diluted	\$ 0.13	\$ 0.14
Weighted average common shares outstanding-Basic	4,386	4,441
Weighted average common shares outstanding-Diluted	4,413	4,533

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	Retained	Accumulated Other Comprehensive Income		Total
	Shares	Amount	Paid-In Capital	Shares		Amount	Earnings	
Balance at January 1, 2009	5,284,500	\$ 53	\$ 26,636	640,838	\$ (3,383)	\$ 567	\$ 11	\$ 23,884
Net Income						578		578
Other comprehensive income :								
Translation adjustment							(47)	(47)
Unrealized loss on available- for-sale securities							(33)	(33)
Comprehensive income								498
Dividends paid			(692)					(692)
Share-based compensation expense			184					184
Tax expense from share- based compensation			(20)					(20)
Treasury shares repurchased				3,876	(27)			(27)
Balance at March 31, 2009	5,284,500	\$ 53	\$ 26,108	644,714	\$ (3,410)	\$ 1,145	\$ (69)	\$ 23,827

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,	
	2009	2008
Net income	\$ 578	\$ 629
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	78	85
Bad debt expense	9	11
Deferred income taxes	113	92
Share-based compensation expense	184	184
Changes in operating assets and liabilities:		
Accounts receivable	(2,576)	2,820
Inventory	247	277
Prepaid expenses and other current assets	211	(335)
Accounts payable and accrued expenses	244	(4,167)
Net change in other assets and liabilities	24	(30)
Net cash used in operating activities	(888)	(434)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(4,663)	(3,047)
Redemptions of available-for-sale securities	4,240	5,000
Capital expenditures	(56)	(256)
Net cash (used in) provided by investing activities	(479)	1,697
Cash flows from financing activities:		
Dividend paid	(692)	(707)
Proceeds from exercise of stock options	-	32
Treasury stock repurchased	(27)	(391)
Tax expense from share-based compensation	(20)	-
Net cash used in financing activities	(739)	(1,066)
Effect of foreign exchange rate on cash	(27)	(78)
Net (decrease) increase in cash and cash equivalents	(2,133)	119
Cash and cash equivalents at beginning of period	9,349	14,241
Cash and cash equivalents at end of period	\$ 7,216	\$ 14,360
Supplementary disclosure of cash flow information:		
Income taxes paid	649	830

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, 2009

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, 2008.

2. In April 2009, the FASB issued FSP Financial Accounting Standards (“FAS”) 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” This FSP changes existing guidance for determining whether an impairment of debt securities is other than temporary. The FSP requires other than temporary impairments to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses) which is recognized in earnings and the amount related to other factors which is recognized in other comprehensive income. This noncredit loss component of the impairment may only be classified in other comprehensive income if the holder of the security concludes that it does not intend to sell and it will not more likely than not be required to sell the security before it recovers its value. If these conditions are not met, the noncredit loss must also be recognized in earnings. When adopting the FSP, an entity is required to record a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other than temporary impairment from retained earnings to accumulated other comprehensive income. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009. Management is currently evaluating the requirements of the FSP and has not yet determined the impact on the Company’s condensed consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” This FSP provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The FSP also provides additional guidance on circumstances that may indicate that a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company does not believe the adoption of this FSP will materially impact the Company’s condensed consolidated financial statements.

FSP 107-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1), increases the frequency of fair value disclosures required by Statements of Financial Accounting Standards (SFAS) No. 107, Disclosures About Fair

Value of Financial Instruments (SFAS No. 107). FSP 107-1 relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only required to be disclosed once a year. The FSP now requires these disclosures on a quarterly basis effective June 30 2009, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value.

3. Assets and liabilities of the Company's Canadian subsidiary have been translated at current exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the period. The revenue from our Canadian operations in the first three months of 2009 was \$2.6 million as compared to \$6.0 million for the first three months of 2008.

4. Cumulative translation adjustments and unrealized gains (losses) on available-for-sale securities have been classified within accumulated other comprehensive income, which is a separate component of stockholders' equity in accordance with FASB Statement No. 130, "Reporting Comprehensive Income."

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

6. Vendor rebates and price protection are recorded when earned as a reduction to cost of sales or merchandise inventory, as applicable. Cooperative reimbursements from vendors, which are earned and available, are recorded in the period the related advertising expenditure is incurred. Cooperative reimbursements are recorded as net sales in accordance with EITF 02-16 "Accounting by a Customer (including reseller) for Certain Consideration Received from a Vendor."

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

	Cost	Market value	Unrealized Gain (loss)
U.S. Government Securities	\$ 6,071	\$ 6,079	\$ 8
Certificates of deposit	3,693	3,679	(14)
Total Marketable securities	\$ 9,764	\$ 9,758	\$ (6)

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

	Cost	Estimated Fair Value
Due in one year or less	\$ 9,764	\$ 9,758

Investments in available-for-sale securities at December 31, 2008 were (in thousands):

	Cost	Market value	Unrealized Gain (loss)
U.S. Government Securities	\$ 8,057	\$ 8,087	\$ 30
Certificates of deposit	1,284	1,280	(4)
Total Marketable securities	\$ 9,341	\$ 9,367	\$ 26



The cost and market value of the Company's investments at December 31, 2008 by contractual maturity were (in thousands):

		Cost	Estimated Fair Value
Due in one year or less	\$	9,341	\$ 9,367

8. Effective January 1, 2008, the Company adopted SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. In February 2008, the FASB issued FSP 157-2, "Partial Deferral of the Effective Date of Statement 157," which deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The Company uses the following methods for determining fair value in accordance with SFAS No. 157. 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 consolidated balance sheet:

(In thousands) Description	Balance at March 31, 2009	Fair Value Measurements at March 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	\$ 6,079	\$ 6,079	\$ -	\$ -
Certificates of deposit	\$ 3,679		\$ 3,679	

(In thousands) Description	Balance at December 31, 2008	Fair Value Measurements at December 31, 2008 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	\$ 8,087	\$ 8,087	\$ -	\$ -
Certificates of deposit	\$ 1,280		\$ 1,280	

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 – Other Assets (in thousands):

Equipment and leasehold improvements consist of the following as of March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Equipment	\$ 2,382	\$ 2,330
Leasehold improvements	549	549
	2,931	2,879
Less accumulated depreciation and amortization	(2,404)	(2,330)
	\$ 527	\$ 549

Accounts payable and accrued expenses consist of the following as of March 31, 2009 and December 31, 2008:

	March 31, 2009	December 31, 2008
Trade accounts payable	\$ 22,430	\$ 21,212
Other accrued expenses	1,317	2,184
	\$ 23,747	\$ 23,396

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 per share data):

	Three months ended March 31,	
	2009	2008
Numerator:		
Net income	\$ 578	\$ 629
Denominator:		
Weighted average shares (Basic)	4,386	4,441
Dilutive effect of outstanding options and nonvested shares of restricted stock	27	92
Weighted average shares including assumed conversions (Diluted)	4,413	4,533
Basic net income per share	\$ 0.13	\$ 0.14
Diluted net income per share	\$ 0.13	\$ 0.14

11. The Company had two major vendors that accounted for 14.3% and 12.1% of total purchases during the three months ended March 31, 2009. The Company had one major vendor that accounted for 26.1% of total purchases during the three months ended March 31, 2008. The Company had one major customer that accounted for 11.0% of total net sales during the three months ended March 31, 2009, and 12.8% of total accounts receivable as of March 31, 2009. The Company had no major customers accounting for greater than 10% of total net sales for the three months

ended March 31, 2008.

Page 9 of 21

---

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 2005. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. Accrued interest is insignificant and there are no penalties accrued at March 31, 2009. 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,	
	2009	2008
Current:		
Federal	\$ 202	\$ 216
State	49	35
Canada	21	69
	272	320
Deferred tax expense	113	91
	\$ 385	\$ 411
Effective tax rate	40%	40%

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, 2009	\$ 78
Additions based on tax positions related to current year	-
Net Unrecognized Tax Benefit at March 31, 2009	\$ 78

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

13. In accordance with SFAS No. 123(R), "Share-Based Payment," recognized compensation cost for the three months ended March 31, 2009 and 2008 includes 1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123; and 2) compensation cost for all share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with Statement 123(R).

At the annual stockholders' meeting held on June 14, 2006, the Company's stockholders approved the 2006 Stock-Based Compensation Plan (the "2006 Plan"). The 2006 Plan authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses, and other equity-based awards. The total number of shares of Common Stock initially available under the 2006 Plan was 800,000. As of March 31, 2009, the number of shares of common stock available for future award grants to employees and directors under this plan is 413,500.

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

Page 10 of 21

---

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.

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 2009 in options outstanding for the Company's combined plans were as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (\$M)(1)
Outstanding at January 1, 2009	392,890	\$ 8.12		
Granted in 2009	-	-		
Canceled in 2009	-	-		
Exercised in 2009	-	-		
Outstanding at March 31, 2009	392,890	\$ 8.12	4.9	\$ 0.2
Exercisable at March 31, 2009	392,890	\$ 8.12	4.9	\$ 0.2

(1) The intrinsic value is calculated as the difference between the market value on the last trading day of the quarter (March 31, 2009) and the exercise price of the shares. The market value as of March 31, 2009 was \$6.95 per share as reported by The NASDAQ Global Market.

A summary of nonvested shares of restricted stock awards outstanding under the Company's 2006 Plan as of March 31, 2009, and changes during the three months then ended is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2009	264,750	\$ 12.76
Granted in 2009	-	-
Vested in 2009	(14,125)	13.00
Forfeited in 2009	-	-
Nonvested shares at March 31, 2009	250,625	\$ 12.72

As of March 31, 2009, there is approximately \$3.2 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 5.61 years.

For the three months ended March 31, 2009 and 2008, the Company recognized share-based compensation cost of approximately \$184,000, each period which is included in general and administrative expense.

14. SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that public companies report profits and losses and certain other information on their "reportable operating segments" in their annual and interim financial statements. The internal organization used by the Company's Chief Operating Decision Maker (CODM) to assess performance and allocate resources determines the basis for reportable operating segments. The Company's CODM is the Chief Executive Officer.

Page 11 of 21

---

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

As permitted by SFAS No. 131, the Company has utilized the aggregation criteria in combining its operations in Canada with the domestic segments as they provide the same products and services to similar clients and are considered together when the CODM decides how to allocate resources.

Segment income is based on segment revenue less the respective segment’s cost of revenues as well as segment direct costs (including such items as payroll costs and payroll related costs, such as profit sharing, incentive awards and insurance) and excluding general and administrative expenses not attributed to a business unit. The Company only identifies accounts receivable and inventory by segment as shown below as “Selected Assets”; it does not allocate its other assets, including capital expenditures by segment.

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

	Three months ended March 31,	
Revenue:	2009	2008
Programmer’s Paradise	\$ 11,507	\$ 11,171
Lifeboat	20,243	29,335
	31,750	40,506
<b>Gross Profit:</b>		
Programmer’s Paradise	\$ 1,468	\$ 1,364
Lifeboat	1,999	2,381
	3,467	3,745
<b>Direct Costs:</b>		
Programmer’s Paradise	\$ 670	\$ 741
Lifeboat	652	721
	1,322	1,462
<b>Income Before Taxes:</b>		
Programmer’s Paradise	798	622
Lifeboat	1,347	1,661
Segment Income	2,145	2,283
General and administrative	1,329	1,480
Interest income	148	234
Foreign currency translation gain (loss)	(1)	3
Income before taxes	\$ 963	\$ 1,040
<b>Selected Assets By Segment:</b>		
Programmer’s Paradise	\$ 11,872	\$ 9,006
Lifeboat	10,206	13,678
Corporate Assets	25,574	29,361
Total Assets	\$ 47,652	\$ 52,045



## 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 certain factors, including those set forth under the heading "Certain Factors Affecting Operating Results" 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, 2008, 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 and the consolidated financial statements and related notes included in our 2008 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 corporate resellers, VARs, consultants and systems integrators.

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

## Results of Operations

The following table sets forth for the periods indicated certain financial information derived from the Company's consolidated statements of earnings expressed as a percentage of net sales. This comparison of financial results is not necessarily indicative of future results:

	Three months ended	
	2009	2008
	March 31,	
	( unaudited)	
Net sales	100.0%	100.0%
Cost of sales	89.1	90.7
Gross profit	10.9	9.3
Selling, general and administrative expenses	8.3	7.3
Income from operations	2.6	2.0
Interest income, net	0.4	0.6
Realized foreign currency exchange gain (loss)	-	-
Income before income taxes	3.0	2.6
Provision for income taxes	1.2	1.0
Net income	1.8%	1.6%

## Net Sales

Net sales for the first quarter of 2009 decreased 22% or \$8.8 million to \$31.8 million compared to \$40.5 million for the same period in 2008. Total sales for the first quarter of 2009 for our Programmer's Paradise segment were \$11.5 million compared to \$11.2 million in the first quarter of 2008, representing a 3% increase. Total sales for the first quarter of 2009 for our Lifeboat segment were \$20.2 million compared to \$29.3 million in the first quarter of 2008, representing a 31% decrease.

The decline in sales for our Lifeboat segment was primarily due to a decrease in VMware sales in that segment. VMware terminated its distributor agreement with Lifeboat Distribution, Inc. in 2008. As a result, our Lifeboat segment ceased distributing VMware products as of October 1, 2008, the distribution of which had accounted for \$9.2 million or (31%) of segment sales in the first quarter of 2008.

In the Programmer's Paradise segment, sales for the first quarter of 2009 increased by \$0.3 million, compared with the first quarter of 2008, primarily due to our customer service centric sales approach, aggressive pricing and an increase in orders by customers utilizing our flexible payment option arrangement.

#### Gross Profit

Gross Profit for the quarter ending March 31, 2009 was \$3.5 million compared to \$3.7 million in the first quarter of 2008, a 7% decrease. Total gross profit for our Programmer's Paradise segment was \$1.5 million compared to \$1.4 million in the first quarter of 2008, representing an 8% increase. Total gross profit for our Lifeboat segment was \$2.0 million compared to \$2.4 million in the first quarter of 2008, representing a 16% decrease.

Gross profit margin, as a percentage of net sales, for the quarter ending March 31, 2009 was 10.9% compared to 9.3% in the first quarter of 2008. Gross profit margin for our Programmer's Paradise segment was 12.8% compared to 12.2% in the first quarter of 2008. Gross profit margin for our Lifeboat segment was 9.9% compared to 8.1% in the first quarter of 2008.

The increase in gross profit margin as a percentage of net sales was primarily caused by the decline in VMware sales which carry lower margins than our other lines. The Lifeboat segment represented 64% of total sales in the first quarter of 2009 compared to 72% in 2008. Gross profit margin percentage for our Lifeboat segment was 9.9% compared to 12.8% for our Programmer's Paradise segment.

#### Selling, General and Administrative Expenses

Total selling, general, and administrative ("SG&A") expenses for the first quarter of 2009 were \$2.7 million compared to \$2.9 million in the first quarter of 2008, mainly the result of a decrease in employee and employee related expenses of \$0.2 million in 2009 compared to 2008. As a percentage of net sales, however, SG&A expenses for the first quarter of 2009 were 8.3% compared to 7.3% in the first quarter of 2008, due to the decline in sales.

The Company expects that its SG&A expenses, as a percentage of net sales, may vary by quarter depending on changes in sales volume, as well as the levels of continuing investments in information technology and marketing. We continue to monitor our SG&A expenses closely.

Direct selling costs for the first quarter of 2009 were \$1.3 million compared to \$1.5 million in the first quarter of 2008. Total direct selling costs for our Programmer's Paradise segment for the first quarter of 2009 were \$0.7 million compared to \$0.7 million in 2008. Total direct selling costs for our Lifeboat segment for the first quarter of 2009 and 2008 were \$0.7 million.

#### Foreign Currency Transactions Gain (Loss)

The realized foreign exchange loss for the quarter ended March 31, 2009 was \$1,000 compared to a gain of \$3,000 for the same period in 2008. 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, 2009, the Company recorded a provision for income taxes of \$385,000, which consisted of a provision of \$202,000 for U.S. federal income taxes as well as a \$49,000 provision for state and local taxes and \$21,000 for Canadian taxes and a deferred tax expense of \$113,000. For the quarter ended March 31, 2008, the Company recorded a provision for income taxes of \$411,000, which consisted of a provision of \$216,000 for U.S. federal income taxes as well as a \$35,000 provision for state and local taxes and \$69,000 for Canadian taxes and a deferred tax expense of \$91,000.

The effective tax rates for the three months ended March 31, 2009 and March 31, 2008 was 40%.

## Liquidity and Capital Resources

During the first three months of 2009 our cash and cash equivalents decreased by \$2.1 million to \$7.2 million at March 31, 2009, from \$9.3 million at December 31, 2008. During the first three months of 2009, net cash used in operating activities amounted to \$0.9 million; net cash used in investing activities amounted to \$0.5 million and net cash used in financing activities amounted to \$0.7 million.

Net cash used in operating activities in the first three months of 2009 was \$0.9 million and primarily resulted from a \$2.6 million increase in accounts receivable, offset partially by a \$0.2 million increase in accounts payable, net income excluding non-cash charges of \$0.9 million, a decrease of \$0.2 million in inventory and a decrease of \$0.2 million in prepaid expenses. The \$2.6 million increase in accounts receivable primarily relates to the timing of large sales transactions in the later part of the quarter.

Net cash used in investing activities in the first three months of 2009 amounted to \$0.5 million. This primarily resulted from net purchases of \$0.4 million in marketable securities. These securities are highly rated and highly liquid. These securities are classified as available-for-sale securities in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities", and as a result, unrealized gains and losses are reported as part of accumulated other comprehensive income (loss). Cash was also used for \$0.1 million of capital expenditures.

Net cash used in financing activities in the first three months of 2009 amounted to \$0.7 million. This consisted primarily of dividends paid of \$0.7 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 conditions.

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

Contractual Obligations as of March 31, 2009 were summarized as follows:

(Dollars in thousands)

Payment due by Period

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	-	-	-	-	-
Capital Lease Obligations	-	-	-	-	-
Operating Leases (1)	\$ 1,354	\$ 441	\$ 913	-	-
Purchase Obligations	-	-	-	-	-
Other Long Term Obligations	-	-	-	-	-
Total Contractual Obligations (2)	\$ 1,354	\$ 441	\$ 913	\$ -	\$ -

(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.

As of March 31, 2009, 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.

Page 16 of 21

---

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 April 2009, the FASB issued FSP Financial Accounting Standards (“FAS”) 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” This FSP changes existing guidance for determining whether an impairment of debt securities is other than temporary. The FSP requires other than temporary impairments to be separated into the amount representing the decrease in cash flows expected to be collected from a security (referred to as credit losses) which is recognized in earnings and the amount related to other factors which is recognized in other comprehensive income. This noncredit loss component of the impairment may only be classified in other comprehensive income if the holder of the security concludes that it does not intend to sell and it will not more likely than not be required to sell the security before it recovers its value. If these conditions are not met, the noncredit loss must also be recognized in earnings. When adopting the FSP, an entity is required to record a cumulative effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other than temporary impairment from retained earnings to accumulated other comprehensive income. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009. Management is currently evaluating the requirements of the FSP and has not yet determined the impact on the Company’s condensed consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” This FSP provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability. The FSP also provides additional guidance on circumstances that may indicate that a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company does not believe the adoption of this FSP will materially impact the Company’s condensed consolidated financial statements.

FSP 107-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1), increases the frequency of fair value disclosures required by Statements of Financial Accounting Standards (SFAS) No. 107, Disclosures About Fair Value of Financial Instruments (SFAS No. 107). FSP 107-1 relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only required to be disclosed once a year. The FSP now requires these

disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. Based on our evaluation of FSP 107-1, we expect to provide the disclosures required in SFAS No. 107 in interim periods beginning in June 2009.

### Certain Factors Affecting Operating Results

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

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

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

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

Stock Volatility. The technology sector of the United States stock markets has experienced substantial volatility in recent periods. Numerous conditions, which impact the technology sector or the stock market in general, 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 \$9.8 million investments in marketable securities at March 31, 2009 are invested in highly rated and liquid U.S. government securities and insured certificates of deposit investments. 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 of March 31, 2009. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Accounting Officer (principal financial officer). As defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based upon that evaluation, our Chief Executive Officer and Chief Accounting Officer concluded that our disclosure controls and procedures were effective as of March 31, 2009. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

**Changes in Internal Control Over Financial Reporting.** 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, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## 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 2009.

## 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, 2009- January 31, 2009	-	-	-	-	574,256
February 1, 2009- February 28, 2009	3,876	\$ 7.06	-	-	574,256
March 1, 2009- March 31, 2009	-	-	-	-	574,256

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

Total	3,876	\$	7.06	-	-	574,256
-------	-------	----	------	---	---	---------

(1) Includes 3,876 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of restricted common stock.

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

Page 19 of 21

---

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

(4) On October 9, 2002, our Board of Directors adopted a stock repurchase program whereby the Company was authorized to repurchase up to 500,000 shares of our common stock from time to time. On July 31, 2008, the Company approved the increase of its common stock repurchase program by 500,000 shares. The company expects to purchase shares from time to time in the market or otherwise subject to market conditions. The stock repurchase program does not have an expiration date

Item 6. Exhibits

(a) Exhibits.

31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Simon F. Nynens, the Chief Executive Officer (principal executive officer) of the Company.

31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Kevin T. Scull, the Chief Accounting Officer (principal financial officer) of the Company.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Simon F. Nynens, the Chief Executive Officer (principal executive officer) of the Company.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Kevin T. Scull, the Chief Accounting Officer (principal financial officer) of the Company.

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 12, 2009  
Date

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

May 12, 2009  
Date

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