

Wayside Technology Group, Inc.  
Form 10-Q  
November 06, 2015

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2015

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.)

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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:

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

There were 4,723,528 outstanding shares of common stock, par value \$.01 per share, ( Common Stock ) as of November 2, 2015, not including 560,972 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)

|   | September 30,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|---|--------------------------------------|----------------------|
| <b>ASSETS</b>   |                                      |                      |
| Current assets  |                                      |                      |
| Cash and cash equivalents   | \$ 19,607                            | \$ 23,124            |
| Accounts receivable, net of allowances of \$1,413 and \$1,819, respectively   | 56,916                               | 60,782               |
| Inventory, net  | 2,012                                | 1,491                |
| Prepaid expenses and other current assets   | 1,094                                | 933                  |
| Deferred income taxes   | 179                                  | 245                  |
| Total current assets  | 79,808                               | 86,575               |
| Equipment and leasehold improvements, net   | 390                                  | 412                  |
| Accounts receivable-long-term   | 6,139                                | 7,660                |
| Other assets  | 94                                   | 152                  |
| Deferred income taxes   | 182                                  | 182                  |
|   | \$ 86,613                            | \$ 94,981            |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                      |                      |
| Current liabilities   |                                      |                      |
| Accounts payable and accrued expenses   | \$ 48,537                            | \$ 55,414            |
| Total current liabilities   | 48,537                               | 55,414               |
| Commitments and contingencies   |                                      |                      |
| Stockholders' equity  |                                      |                      |
| Common Stock, \$.01 par value; 10,000,000 shares authorized, 5,284,500 shares issued;<br>4,740,380 and 4,890,756 shares outstanding, respectively | 53                                   | 53                   |
| Additional paid-in capital  | 32,048                               | 31,013               |
| Treasury stock, at cost, 544,120 and 393,744 shares, respectively   | (9,574)                              | (6,166)              |
| Retained earnings   | 16,997                               | 15,225               |
| Accumulated other comprehensive loss  | (1,448)                              | (558)                |
| Total stockholders' equity  | 38,076                               | 39,567               |
|   | \$ 86,613                            | \$ 94,981            |

*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)

|  | Nine months ended<br>September 30 |            | Three months ended<br>September 30, |           |
|--|-----------------------------------|------------|-------------------------------------|-----------|
|  | 2015                              | 2014       | 2015                                | 2014      |
| Net sales  | \$ 282,314                        | \$ 246,635 | \$ 97,653                           | \$ 90,505 |
| Cost of sales                                      | 262,652                           | 228,782    | 90,773                              | 84,329    |
| Gross profit                                       | 19,662                            | 17,853     | 6,880                               | 6,176     |
| Selling, general and administrative expenses       | 13,533                            | 12,293     | 4,618                               | 4,291     |
| Income from operations                             | 6,129                             | 5,560      | 2,262                               | 1,885     |
| Other income:                                      |                                   |            |                                     |           |
| Interest, net                                      | 297                               | 375        | 100                                 | 121       |
| Foreign currency transaction loss                  | (9)                               | (8)        | (4)                                 | (4)       |
| Income before provision for income taxes           | 6,417                             | 5,927      | 2,358                               | 2,002     |
| Provision for income taxes                         | 2,199                             | 2,016      | 805                                 | 632       |
| Net income   | \$ 4,218                          | \$ 3,911   | \$ 1,553                            | \$ 1,370  |
| Income per common share Basic                      | \$ 0.91                           | \$ 0.84    | \$ 0.34                             | \$ 0.29   |
| Income per common share Diluted                    | \$ 0.90                           | \$ 0.83    | \$ 0.33                             | \$ 0.29   |
| Weighted average common shares outstanding Basic   | 4,652                             | 4,639      | 4,624                               | 4,716     |
| Weighted average common shares outstanding Diluted | 4,673                             | 4,685      | 4,643                               | 4,736     |
| Dividends paid per common share                    | \$ 0.51                           | \$ 0.51    | \$ 0.17                             | \$ 0.17   |

*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)**

|   | Nine months ended<br>September 30, |          | Three months ended<br>September 30, |          |
|---|------------------------------------|----------|-------------------------------------|----------|
|   | 2015                               | 2014     | 2015                                | 2014     |
| Net income                              | \$ 4,218                           | \$ 3,911 | \$ 1,553                            | \$ 1,370 |
| Other comprehensive loss, net of tax:   |                                    |          |                                     |          |
| Foreign currency translation adjustment | (890)                              | (357)    | (428)                               | (293)    |
| Other comprehensive loss                | (890)                              | (357)    | (428)                               | (293)    |
| Comprehensive income                    | \$ 3,328                           | \$ 3,554 | \$ 1,125                            | \$ 1,077 |

*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<br>Shares | Common Stock<br>Amount | Additional<br>Paid-In<br>Capital | Treasury<br>Shares | Treasury<br>Amount | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total     |
|---|------------------------|------------------------|----------------------------------|--------------------|--------------------|----------------------|---|-----------|
| Balance at January 1,<br>2015                   | 5,284,500              | \$ 53                  | \$ 31,013                        | 393,744            | \$ (6,166)         | \$ 15,225            | \$ (558)                                      | \$ 39,567 |
| Net income                                      |                        |                        |                                  |                    |                    | 4,218                |   | 4,218     |
| Translation adjustment                          |                        |                        |                                  |                    |                    |                      | (890)   | (890)     |
| Dividends paid                                  |                        |                        |                                  |                    |                    | (2,446)              |   | (2,446)   |
| Share-based<br>compensation expense             |                        |                        | 797                              |                    |                    |                      |   | 797       |
| Restricted stock grants<br>(net of forfeitures) |                        |                        | (232)                            | (39,535)           | 232                |                      |   |           |
| Stock options<br>exercised                      |                        |                        | 298                              | (44,640)           | 276                |                      |   | 574       |
| Tax benefit from<br>share-based<br>compensation |                        |                        | 172                              |                    |                    |                      |   | 172       |
| Treasury stock<br>repurchased                   |                        |                        |                                  | 234,551            | (3,916)            |                      |   | (3,916)   |
| Balance at<br>September 30, 2015                | 5,284,500              | \$ 53                  | \$ 32,048                        | 544,120            | \$ (9,574)         | \$ 16,997            | \$ (1,448)                                    | \$ 38,076 |

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)

|  | Nine months ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2015                               | 2014      |
| <b>Cash flows from operating activities</b>  |                                    |           |
| Net income   | \$ 4,218                           | \$ 3,911  |
| Adjustments to reconcile net income to net cash provided by ( used in) operating activities: |                                    |           |
| Depreciation and amortization expense  | 188                                | 167       |
| Deferred income tax expense (benefit)  | 67                                 | (52)      |
| Provision for doubtful accounts receivable   | 6                                  | 43        |
| Share-based compensation expense   | 797                                | 853       |
| Changes in operating assets and liabilities:   |                                    |           |
| Accounts receivable  | 4,686                              | (1,080)   |
| Inventory  | (531)                              | (99)      |
| Prepaid expenses and other current assets  | (176)                              | 1,266     |
| Accounts payable and accrued expenses  | (6,642)                            | (8,262)   |
| Other assets   | 55                                 | (8)       |
| Net cash provided by (used in) operating activities  | 2,668                              | (3,261)   |
| <b>Cash flows used in investing activities</b>   |                                    |           |
| Purchase of equipment and leasehold improvements   | (164)                              | (197)     |
| Net cash used in investing activities  | (164)                              | (197)     |
| <b>Cash flows used financing activities</b>  |                                    |           |
| Dividends paid   | (2,446)                            | (2,407)   |
| Purchase of treasury stock   | (3,916)                            | (456)     |
| Tax benefit from share-based compensation  | 172                                | 713       |
| Proceeds from stock option exercises   | 574                                | 1,791     |
| Net cash used in financing activities  | (5,616)                            | (359)     |
| Effect of foreign exchange rate on cash  | (405)                              | (186)     |
| Net decrease in cash and cash equivalents  | (3,517)                            | (4,003)   |
| Cash and cash equivalents at beginning of period   | 23,124                             | 19,609    |
| Cash and cash equivalents at end of period   | \$ 19,607                          | \$ 15,606 |
| <b>Supplementary disclosure of cash flow information:</b>                                    |                                    |           |
| Income taxes paid  | \$ 2,347                           | \$ 1,693  |

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



**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2015**

**(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, 2014.

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The FASB approved a one-year deferral in July 2015, making the standard effective for reporting periods beginning after December 15, 2017, with early adoption permitted only for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of this new accounting pronouncement, if any, the pronouncement will have on our financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory (Topic 330), (ASU 2015-11). Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 require an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of this new accounting pronouncement, if any, the pronouncement will have on our financial statements.

2. Assets and liabilities of the Company's foreign subsidiaries have been translated at current exchange rates, and related sales and expenses have been translated at average rates of exchange in effect during the period. The sales from our Canadian operations in the first nine months of 2015 were \$16.5 million as compared to

\$17.3 million for the first nine months of 2014. The sales from our Canadian operations for the third quarter of 2015 were \$5.5 million as compared to \$5.7 million for the third quarter of 2014.

**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2015**

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

3. Cumulative translation adjustments have been classified within accumulated other comprehensive loss, which is a separate component of stockholders' equity in accordance with FASB Accounting Standards Codification (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 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 September 30, 2015 and December 31, 2014 because of the relative short maturity of these instruments. The Company's accounts receivable long-term is discounted to their present value at prevailing market rates so the balances approximate fair value.

Wayside Technology Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

September 30, 2015

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

6. Balance Sheet Detail:

Equipment and leasehold improvements consist of the following as of September 30, 2015 and December 31, 2014:

|  | September 30,<br>2015 |    | December 31,<br>2014 |
|--|-----------------------|----|----------------------|
| Equipment                                      | \$ 2,904              | \$ | 2,744                |
| Leasehold improvements                         | 559                   |    | 565                  |
|  | 3,463                 |    | 3,309                |
| Less accumulated depreciation and amortization | (3,073)               |    | (2,897)              |
|  | \$ 390                | \$ | 412                  |

Accounts payable and accrued expenses consist of the following as of September 30, 2015 and December 31, 2014:

|                        | September 30,<br>2015 |    | December 31,<br>2014 |
|------------------------|-----------------------|----|----------------------|
| Trade accounts payable | \$ 45,548             | \$ | 52,328               |
| Accrued expenses       | 2,989                 |    | 3,086                |
|                        | \$ 48,537             | \$ | 55,414               |

Accumulated other comprehensive loss consists of the following as of September 30, 2015 and December 31, 2014:

|   | September 30,<br>2015 |    | December 31,<br>2014 |
|---|-----------------------|----|----------------------|
| Foreign currency translation adjustment | \$ (1,448)            | \$ | (558)                |
|   | \$ (1,448)            | \$ | (558)                |

7. On January 4, 2013, 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. 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.

## Wayside Technology Group, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

September 30, 2015

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

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 the Company'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. The Company is in compliance with all covenants at September 30, 2015.

At September 30, 2015, the Company had no borrowings outstanding under the Credit Facility.

8. 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:

|  | Nine months ended<br>September 30, |          | Three months ended<br>September 30, |          |
|--|------------------------------------|----------|-------------------------------------|----------|
|  | 2015                               | 2014     | 2015                                | 2014     |
| Numerator:   |                                    |          |                                     |          |
| Net income   | \$ 4,218                           | \$ 3,911 | \$ 1,553                            | \$ 1,370 |
| Denominator:   |                                    |          |                                     |          |
| Weighted average shares (Basic)  | 4,652                              | 4,639    | 4,624                               | 4,716    |
| Dilutive effect of outstanding<br>options and non-vested shares of<br>restricted stock | 21                                 | 46       | 19                                  | 20       |
| Weighted average shares including<br>assumed conversions (Diluted)                     | 4,673                              | 4,685    | 4,643                               | 4,736    |
| Basic income per share   | \$ 0.91                            | \$ 0.84  | \$ 0.34                             | \$ 0.29  |
| Diluted income per share   | \$ 0.90                            | \$ 0.83  | \$ 0.33                             | \$ 0.29  |





**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2015**

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

9. The Company had one major vendor that accounted for 24.3% and 26.2% of total purchases during the nine months and three months, respectively, that ended September 30, 2015. The Company had one major vendor that accounted for 13.6% and 17.3% of total purchases during the nine months and three months, respectively, that ended September 30, 2014. The Company had two major customers that accounted for 18.8% and 17.9%, respectively, of its total net sales during the nine months ended September 30, 2015, and 20.5%, and 18.1% of total net sales for the three months ended September 30, 2015. These same customers accounted for 11.9% and 18.8%, respectively, of total net accounts receivable as of September 30, 2015. The Company had three major customers that accounted for 16.7%, 16.4% and 10.9% of its total net sales during the nine months ended September 30, 2014, and 16.8%, 18.7% and 10.6% of total net sales for the three months ended September 30, 2014.

10. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Company has identified its federal consolidated tax return and its state tax return in New Jersey and its Canadian tax return as major tax jurisdictions. As of September 30, 2015 the Company's 2013 and 2014 Federal tax returns remain open for examination, as the Company recently concluded an Internal Revenue Service examination for the 2011 and 2012 tax years. This examination resulted in no change to the previously filed Federal corporate tax returns. The Company's New Jersey and Canadian tax returns are open for examination for the years 2012 through 2014. 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 each of the nine and three months ended September 30, 2015 was 34.3% and 34.1% respectively, compared with 34.0% and 31.6% for the same periods last year. The current year effective tax rates are higher primarily due to fact that the prior year included an adjustment to reflect a change in state apportionment rules.

11. 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 September 30, 2015, the number of shares of Common stock available for future award grants to employees and directors under the 2012 Plan is 474,713.

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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 September 30, 2015, there are no shares of Common Stock available for future award grants to employees and directors under the 2006 Plan.

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.

**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2015**

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

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. In 2012, a total of 3,525 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2013, the Company granted a total of 56,500 shares of Restricted Stock to officers and employees. Included in these grants were 40,000 Restricted Shares granted to the Company's CEO in accordance with the satisfaction of certain performance criteria included in his compensation plan. These 40,000 Restricted Shares vest over 16 equal quarterly installments. The remaining grants of Restricted Stock vest over 20 equal quarterly installments. In 2013, a total of 775 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2014, the Company granted a total of 98,689 shares of Restricted Stock to officers, directors and employees. These shares of Restricted Stock vest between one and twenty equal quarterly installments. In 2014, a total of 34,487 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

During 2015, the Company granted a total of 44,000 shares of Restricted Stock to officers. These shares of Restricted Stock vest over sixteen equal quarterly installments. In 2015, a total of 4,465 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

Changes during 2015 in options outstanding under the Company's combined plans (i.e., the 2012 Plan, the 2006 Plan, the 1995 Non-Employee Director Plan and the 1995 Stock Option Plan) were as follows:

|                                   | Number of<br>Options | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Life | Aggregate Intrinsic<br>Value (\$M)(1) |
|-----------------------------------|----------------------|------------------------------------|---|---------------------------------------|
| Outstanding at January 1, 2015    | 50,640               | \$ 12.85                           |   |                                       |
| Granted in 2015                   |                      |                                    |   |                                       |
| Canceled in 2015                  | (6,000)              | 12.85                              |   |                                       |
| Exercised in 2015                 | (44,640)             | 12.85                              |   |                                       |
| Outstanding at September 30, 2015 |                      |                                    |   |                                       |
| Exercisable at September 30, 2015 |                      |                                    |   |                                       |

(1) The intrinsic value of an option is calculated as the difference between the market value on the last trading day of the quarter (September 30, 2015) and the exercise price of the outstanding options. The market value as of September 30, 2015 was \$17.00 per share represented by the closing price as reported by The NASDAQ Global Market on that day.



**Wayside Technology Group, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**September 30, 2015**

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

A summary of nonvested shares of Restricted Stock awards outstanding under the Company's 2012 Plan and 2006 Plan as of September 30, 2015, and changes during the nine months then ended is as follows:

|  | Shares   | Weighted Average<br>Grant Date<br>Fair Value |
|--|----------|--|
| Nonvested shares at January 1, 2015    | 162,609  | \$ 14.36                                     |
| Granted in 2015                        | 44,000   | 14.99  |
| Vested in 2015                         | (59,361) | 13.64  |
| Forfeited in 2015                      | (4,465)  | 12.80  |
| Nonvested shares at September 30, 2015 | 142,783  | \$ 15.22                                     |

As of September 30, 2015, there is approximately \$2.2 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 2.9 years.

For the nine months ended September 30, 2015 and 2014, the Company recognized share-based compensation cost of \$0.8 million and \$0.9 million respectively, which is included in the Company's general and administrative expense.

12. FASB 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 public 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 Lifeboat Distribution segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide. The TechXtend segment is a value-added reseller of software, hardware and services for corporations, government organizations and academic institutions in the United States and Canada.

As permitted by FASB ASC Topic 280, the Company has utilized the aggregation criteria in combining its operations in Canada with the domestic segments as the Canadian operations provide the same products and services to similar clients and are considered together when the Company's 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 an individual segment business unit. The Company only identifies accounts receivable and inventory by segment as shown below as Selected Assets by segment; it does not allocate its other assets, including capital expenditures by segment.

## Wayside Technology Group, Inc. and Subsidiaries

## Notes to Condensed Consolidated Financial Statements

September 30, 2015

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

The following segment reporting information of the Company is provided:

|                                     | Nine months ended<br>September 30, |            | Three months ended<br>September 30, |           |
|-------------------------------------|------------------------------------|------------|-------------------------------------|-----------|
|                                     | 2015                               | 2014       | 2015                                | 2014      |
| <b>Revenue:</b>                     |                                    |            |                                     |           |
| Lifeboat Distribution               | \$ 250,287                         | \$ 206,655 | \$ 86,082                           | \$ 77,416 |
| TechXtend                           | 32,027                             | 39,980     | 11,571                              | 13,089    |
|                                     | 282,314                            | 246,635    | 97,653                              | 90,505    |
| <b>Gross Profit:</b>                |                                    |            |                                     |           |
| Lifeboat Distribution               | \$ 15,837                          | \$ 13,475  | \$ 5,493                            | \$ 4,747  |
| TechXtend                           | 3,825                              | 4,378      | 1,387                               | 1,429     |
|                                     | 19,662                             | 17,853     | 6,880                               | 6,176     |
| <b>Direct Costs:</b>                |                                    |            |                                     |           |
| Lifeboat Distribution               | 5,759                              | \$ 4,044   | \$ 2,051                            | \$ 1,565  |
| TechXtend                           | 1,725                              | 2,409      | 521                                 | 815       |
|                                     | 7,484                              | 6,453      | 2,572                               | 2,380     |
| <b>Segment Income:</b>              |                                    |            |                                     |           |
| Lifeboat Distribution               | \$ 10,078                          | \$ 9,431   | \$ 3,442                            | \$ 3,182  |
| TechXtend                           | 2,100                              | 1,969      | 866                                 | 614       |
| <b>Segment Income</b>               | 12,178                             | 11,400     | 4,308                               | 3,796     |
| General and administrative          | \$ 6,049                           | \$ 5,840   | \$ 2,046                            | \$ 1,911  |
| Interest, net                       | 297                                | 375        | 100                                 | 121       |
| Foreign currency translation (loss) | (9)                                | (8)        | (4)                                 | (4)       |
| Income before taxes                 | \$ 6,417                           | \$ 5,927   | \$ 2,358                            | \$ 2,002  |

|                                    | As of<br>September 30,<br>2015 | As of<br>December<br>31, 2014 |
|------------------------------------|--------------------------------|-------------------------------|
| <b>Selected Assets By Segment:</b> |                                |                               |
| Lifeboat Distribution              | \$ 40,003                      | \$ 39,780                     |
| TechXtend                          | 25,064                         | 30,153                        |
| <b>Segment Select Assets</b>       | 65,067                         | 69,933                        |
| Corporate Assets                   | 21,546                         | 25,048                        |
| Total Assets                       | \$ 86,613                      | \$ 94,981                     |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of risk and uncertainties, including those set forth under the heading "Certain Factors Affecting Results of Operations and Stock Price" and elsewhere in this report and those set forth in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes included in this report and the consolidated financial statements and related notes included in our 2014 Annual Report on Form 10-K.*

**Overview**

The Company is organized into two reportable operating segments. The Lifeboat Distribution segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide. The TechXtend segment is a value-added reseller of software, hardware and services for corporations, government organizations and academic institutions in the USA and Canada.

We offer an extensive line of products from leading publishers of software and tools for virtualization/cloud computing, security, networking, storage and infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware. We market these products through direct sales, the Internet, our catalogs, direct mail programs, advertisements in trade magazines and e-mail promotions.

The Company's sales, gross profit and results of operations have fluctuated and are expected to continue to fluctuate on a quarterly basis as a result of a number of factors, including but not limited to: the condition of the software industry in general, shifts in demand for software products, pricing, level of extended payment terms sales transactions, industry shipments of new software products or upgrades, the timing of new merchandise and catalog offerings, fluctuations in response rates, fluctuations 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 sales 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 unaudited condensed consolidated statements of earnings expressed as a percentage of net sales. This comparison of financial results is not necessarily indicative of future results:



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|  | Nine months ended<br>September 30, |      | Three months ended<br>September 30, |      |
|--|------------------------------------|------|-------------------------------------|------|
|  | 2015                               | 2014 | 2015                                | 2014 |
| Net sales                                    | 100%                               | 100% | 100%                                | 100% |
| Cost of sales                                | 93.0                               | 92.8 | 93.0                                | 93.2 |
| Gross profit                                 | 7.0                                | 7.2  | 7.0                                 | 6.8  |
| Selling, general and administrative expenses | 4.8                                | 4.9  | 4.7                                 | 4.7  |
| Income from operations                       | 2.2                                | 2.3  | 2.3                                 | 2.1  |
| Interest income, net                         | 0.1                                | 0.1  | 0.1                                 | 0.1  |
| Income before income taxes                   | 2.3                                | 2.4  | 2.4                                 | 2.2  |
| Provision for income taxes                   | 0.8                                | 0.8  | 0.8                                 | 0.7  |
| Net income                                   | 1.5%                               | 1.6% | 1.6%                                | 1.5% |

### Net Sales

Net sales for the third quarter ended September 30, 2015 increased 8% or \$7.1 million to \$97.7 million compared to \$90.5 million for the same period in 2014. Total sales for the third quarter of 2015 for our Lifeboat Distribution segment were \$86.1 million compared to \$77.4 million in the third quarter of 2014, representing an increase of \$8.7 million or 11%. Total sales for the third quarter of 2015 for our TechXtend segment were \$11.6 million compared to \$13.1 million in the third quarter of 2014, representing a decrease of \$1.5 million or 12%.

The 11% increase in net sales for the Lifeboat Distribution segment was mainly a result of the addition of several key product lines and our ongoing strategy of strengthening of our account penetration. The 12% decrease in net sales in the TechXtend segment was primarily due to a decrease in extended payment terms sales transactions as compared to the same period in 2014.

For the nine months ended September 30, 2015, net sales increased 14% or \$35.7 million to \$282.3 million compared to \$246.6 million for the same period in 2014. Net sales for the nine months ended September 30, 2015 for our Lifeboat Distribution segment increased 21% or \$43.6 million to \$250.2 million compared to \$206.6 million for the same period in 2014. Net sales for the nine months ended September 30, 2015 for our TechXtend segment decreased 20% or \$8.0 million to \$32.0 million compared to \$40.0 million for the same period in 2014.

The 21% increase in net sales from our Lifeboat Distribution segment in the first nine months of 2015 compared to the same period in 2014 was mainly a result of the addition of several key product lines and our ongoing strategy of strengthening of our account penetration. The 20% decrease in net sales in the TechXtend segment was primarily due to a decrease in both extended payment terms sales transactions and large transactions as compared to the same period in 2014.

### Gross Profit

Gross profit for the third quarter ended September 30, 2015 was \$6.9 million, an 11% increase as compared to \$6.2 million for the third quarter of 2014. Gross profit for our Lifeboat Distribution segment in the third quarter of 2015 was \$5.5 million compared to \$4.7 million for the third quarter of 2014, representing a 16% increase. Gross profit for our TechXtend segment in the third quarter of 2015 was virtually identical to the gross profit in the third quarter of 2014.

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For the nine months ended September 30, 2015 gross profit increased 10% or \$1.8 million to \$19.7 million compared to \$17.8 million for the same period in 2014. Lifeboat Distribution gross profit for the nine months ended September 30, 2015 increased 18% to \$15.8 million as compared to \$13.5 million for the first nine months of 2014. The increase in gross profit for the Lifeboat Distribution segment was primarily due to higher sales volume. TechXtend gross profit for the nine months ended September 30, 2015 decreased by 13% to \$3.8 million as compared to \$4.4 million for the first nine months of 2014. The decrease in gross profit for the TechXtend segment was primarily caused by the decreased sales volume in the current year.

Gross profit margin (gross profit as a percentage of net sales) for the third quarter ended September 30, 2015 was 7.0% compared to 6.8% for the third quarter of 2014. Gross profit margin for the nine months ended September 30, 2015 was 7.0% compared to 7.2% in the same period in 2014. Gross profit margin for our Lifeboat Distribution segment for the third quarter of 2015 was 6.4% compared to 6.1% for the third quarter of 2014. The increase in gross profit margin for the Lifeboat Distribution segment was primarily caused by product mix and increased marketing funds. Gross profit margin for our TechXtend segment for the third quarter of 2015 was 12.0% compared to 10.9% for the third quarter of 2014, due primarily to a decline in extended payment term sales transaction in the third quarter of 2015 as compared to the same period in 2014.

Vendor rebates and discounts for the nine month period ended September 30, 2015 amounted to \$1.5 million compared to \$1.2 million for the nine month period ended September 30, 2014. Vendor rebates are dependent on reaching certain targets set by our vendors.

The Company monitors gross profits and gross profit margins carefully. Price competition in our market continued in 2015. We anticipate that margins, as well as discounts and rebates, for the remainder of the year will continue to be affected by this current trend. To the extent that the Company finances larger transactions with extended payment terms, as anticipated, gross margins also will be negatively impacted

#### **Selling, General and Administrative Expenses**

Total selling, general, and administrative ( SG&A ) expenses for the third quarter of 2015 were \$4.6 million compared to \$4.3 million for the third quarter of 2014, representing an increase of \$0.3 million or 8%. This increase is primarily the result of an increase in employee and employee related expenses to support our growth in our Lifeboat Distribution segment (salaries, commissions, and benefits) in 2015 compared to 2014. As a percentage of net sales, SG&A expenses for the third quarter of 2015 and 2014 were each 4.7%.

For the nine months ended September 30, 2015, SG&A expenses were \$13.5 million compared to \$12.3 million in the same period in 2014, representing an increase of \$1.2 million or 10%. This increase is primarily the result of an increase in employee and employee related expenses to support our growth in our Lifeboat Distribution segment (salaries, commissions, and benefits) in 2015 compared to 2014. As a percentage of net sales, SG&A expenses for the nine months ended September 30, 2015 were 4.8% compared to 4.9% for the nine months ended September 30, 2014. The decline in SG&A as a percentage of net sales is the result of the increase in net sales offset in part by the increase in employee and employee related expenses.

Direct selling costs (a component of SG&A) for the third quarter of 2015 were \$2.6 million compared to \$2.4 million for the third quarter of 2014. Total direct selling costs for our Lifeboat Distribution segment for the third quarter of 2015 were \$2.1 million compared to \$1.6 million for the same period in 2014. The increase was primarily due to the Company's investment in a field sales and professional service teams as part of our growth strategy for the Lifeboat Distribution segment. Total direct selling costs for our TechXtend segment for the third quarter of 2015 were \$0.5 million compared to \$0.8 million for the same period in 2014.

The Company expects that its SG&A expenses, as a percentage of net sales, may vary by quarter depending on changes in sales volume, and levels of continuing investments in employee headcount and marketing. We plan to continue our investments in our Lifeboat Distribution segment and to monitor our SG&A expenses closely.



## Income Taxes

For the three months ended September 30, 2015, the Company recorded a provision for income taxes of \$0.8 million or 34.1% of income, compared to \$0.6 million or 31.6% of income for the same period in 2014. The current year effective tax rates are higher primarily due to the fact that the prior year included an adjustment to reflect a change in state apportionment rules.

For the nine months ended September 30, 2015, the Company recorded a provision for income taxes of \$2.2 million or 34.3% of income, compared to \$2.0 million or 34.0% of income for the same period in 2014.

## Liquidity and Capital Resources

During the first nine months of 2015 our cash and cash equivalents decreased by \$3.5 million to \$19.6 million at September 30, 2015, from \$23.1 million at December 31, 2014. During the first nine months of 2015, net cash provided by operating activities amounted to \$2.7 million, net cash used in investing activities amounted to \$0.2 million and net cash used in financing activities amounted to \$5.6 million.

Net cash provided by operating activities in the first the nine months of 2015 was \$2.7 million and primarily resulted from \$5.3 million in net income excluding non-cash charges, and a \$4.7 million decrease in accounts receivable offset in part by a decrease of \$6.7 million in accounts payable and accrued expenses, an increase of \$0.5 million in inventory and an increase of \$0.2 million in prepaid expenses and other current assets. The decreases in accounts receivable and accounts payable and accrued expenses were mainly due to lower sales volume, in the third quarter of 2015 compared to the fourth quarter of 2014.

Net cash used in investing activities in the first nine months of 2015 amounted to \$0.2 million. This was the result of capital expenditures of \$0.2 million.

Net cash used in financing activities in the first nine months of 2015 amounted to \$5.6 million. This consisted primarily of dividends paid of \$2.4 million and treasury stock repurchases of \$3.9 million offset in part by proceeds from stock option exercises of \$0.6 million and the tax benefit from share based compensation of \$0.1 million.

The Company's current and anticipated use of its cash and cash equivalents is, and will continue to be, to fund working capital, operational expenditures, the Common Stock repurchase program and dividends if declared by the board of directors.

The Company's Credit Facility with Citibank matures on January 4, 2016. As of September 30, 2015, the Company had no borrowings under the Credit Facility. The Company is considering whether or not to enter into a new credit facility with another lender, or to renew or renegotiate its Credit Facility with Citibank when the Credit Facility matures. If the Company decides to enter into a new or amended credit facility, there is no guaranty that the Company will be able to secure terms acceptable to the Company, if at all.

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We believe that the funds held in cash and cash equivalents and our unused borrowings on our credit facility will be sufficient to fund our working capital and cash requirements for at least the next 12 months.

Contractual Obligations as of September 30, 2015 are summarized as follows:

| <b>Payment due by Period</b>    | <b>Total</b> | <b>Less than 1 year</b> | <b>1-3 years</b> | <b>4-5 years</b> | <b>After 5 years</b> |
|---------------------------------|--------------|-------------------------|------------------|------------------|----------------------|
| Operating Lease obligations (1) | \$ 434       | \$ 245                  | \$ 189           |                  |                      |
| Total Contractual Obligations   | \$ 434       | \$ 245                  | \$ 189           |                  |                      |

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(1) Operating leases relate primarily to the leases of the space used for our operations in Shrewsbury and Eatontown, New Jersey, Mesa, Arizona, Mississauga, Canada and Amsterdam, Netherlands. The commitments for operating leases include the minimum rent payments.

As of September 30, 2015, the Company has no borrowings outstanding under lines of credit and no commitments relating to standby letters of credit, and has no standby repurchase obligations or other commercial commitments (see Note 7 in the Notes to our Consolidated Financial Statements).

### **Foreign Exchange**

The Company's Canadian business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. We are subject to fluctuations primarily in the Canadian Dollar-to-U.S. Dollar exchange rate.

### **Off-Balance Sheet Arrangements**

As of September 30, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC 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 accounting principles generally accepted in the United States of America. 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, 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.

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The Company believes the following critical accounting policies, used in the preparation of its unaudited condensed consolidated financial statements, affect its more significant judgments and estimates.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required.

The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance related to deferred tax assets. In the event the Company was 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 an expense as it is amortized 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 compensation awards. In connection with valuing stock options, we use the Black-Scholes model, which requires us to consider certain facts and to estimate certain subjective assumptions. The key facts and assumptions we consider are: (i) the expected volatility of our Common Stock; (ii) the expected term of the award; and (iii) the expected forfeiture rate. In connection with our restricted stock program 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.

### **Certain Factors Affecting Results of Operations and Stock Price**

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Statements in this report regarding future events or conditions, including but not limited to statements regarding industry prospects and the Company's expected financial position, results of operations, business and financing plans, are forward-looking statements. These statements can be identified by forward-looking words such as may, will, expect, intend, anticipate, believe, estimate, and con similar words.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Substantial risks and uncertainties unknown at this time could cause actual results to differ materially from those indicated by such forward-looking statements, including, but not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, product mix, market conditions, competitive pricing pressures, contribution of key vendor relationships and support programs, including vendor rebates and discounts, as well as factors that affect the software industry in general and other factors generally. We strongly urge current and prospective investors to carefully consider the cautionary statements and risk factors contained in this report and our annual report on Form 10-K for the year ended December 31, 2014.

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.

The statements concerning future sales, future gross profit margin and future selling and administrative expenses are forward looking statements involving certain risks and uncertainties such as availability of products, product mix, pricing pressures, 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 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, 5.9% of the Company sales during the nine months ended September 30, 2015 were generated 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 cash balance is invested in short-term savings accounts with our primary banks, Citibank, and JPMorgan Chase Bank. As such, we believe that the risk of significant changes in the value of our cash invested is minimal.

### **Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of various members of our management, including our Company's President, Chairman of the Board and Chief Executive Officer (principal executive officer) and Vice President and Chief Accounting Officer (principal financial officer). Based upon that evaluation, the Company's Chief Executive Officer and Chief Accounting Officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this report, to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting.* There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act, that occurred during the quarter ended September 30, 2015, 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 repurchase of Common Stock by the Company and its affiliated purchasers during the third quarter of 2015.

**ISSUER PURCHASE OF EQUITY SECURITIES**

| <b>Period</b>                         | <b>Total<br/>Number of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price Paid<br/>Per Share<br/>(2)</b> | <b>Total Number<br/>of Shares<br/>Purchased as<br/>Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>Average<br/>Price Paid<br/>Per Share<br/>(3)</b> | <b>Maximum<br/>Number of<br/>Shares That May<br/>Yet Be<br/>Purchased Under<br/>the Plans or<br/>Programs<br/>(4)(5)</b> |
|---------------------------------------|---|---|---|---|--|
| July 1, 2015- July 31, 2015           |   | \$  |   | \$  | 549,149  |
| August 1, 2015- August 31, 2015       | 30,782(1)   | 17.34   | 23,752  | 17.02   | 525,397  |
| September 1, 2015- September 30, 2015 | 34,434  | 17.60   | 34,434  | 17.60   | 490,963  |
| Total                                 | 65,216  | \$ 17.48  | 58,186  | \$ 17.36  | 490,963  |

(1) Includes 7,030 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of Restricted Stock. These shares are not included in the Common Stock repurchase program referred to in footnote (4) below.

(2) Average price paid per share reflects the closing price the Company's Common Stock on the business date the shares were surrendered by the employee stockholder to satisfy individual tax withholding obligations upon vesting of Restricted Stock or the price of the Common Stock paid on the open market purchase, as applicable.

(3) Average price paid per share reflects the price of the Company's Common Stock purchased on the open market.

(4) On December 3, 2014, the Board of Directors authorized the purchase of 500,000 shares of our Common Stock. The Company expects to purchase shares of its Common Stock from time to time in the market or otherwise subject to market conditions. The Common Stock repurchase program does not have an expiration date.

(5) On August 14, 2015, the Board of Directors approved, and on August 18, 2015, the Company entered into a written purchase plan intended to comply with the requirements of Rule 10b5-1 under the Exchange Act, as amended (the "Plan"). Purchases involving shares of the Company's

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Common Stock under the Plan commenced August 18, 2015, and the Plan is intended to be in effect until February 18, 2016. Pursuant to the Plan, the Company's broker shall effect purchases of up to an aggregate of 500,000 shares of Common Stock.

**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 Chairman of the Board, President and 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 Vice President and 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 Chairman of the Board, President and 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 Vice President and Chief Accounting Officer (principal financial officer) of the Company.
- 101 The following financial information from Wayside Technology Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 6, 2015, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Earnings, (3) Condensed Consolidated Statements of Stockholders' Equity, (4) Condensed Consolidated Statements of Comprehensive Income, (5) Condensed Consolidated Statements of Cash Flows, and (6) the Notes to the Unaudited Condensed Consolidated Financial Statements.

**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

November 6, 2015  
Date

By:

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

November 6, 2015  
Date

By:

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