

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

Wayside Technology Group, Inc.
Form 10-Q
November 08, 2007

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, 2007

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)

Registrant's Telephone Number (732) 389-8950

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 past 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and non-accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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 4,689,396 outstanding shares of common stock, par value \$.01 per share, as of October 30, 2007, not including 595,104 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)

	September 30, <u>2007</u> (Unaudited)	December 31, <u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,270	\$ 13,832
Marketable securities	9,421	7,032
Accounts receivable, net	20,150	28,045
Inventory - finished goods	1,249	1,265
Prepaid expenses and other current assets	848	607
Deferred income taxes	926	1,632
Total current assets	41,864	52,413
Equipment and leasehold improvements, net	620	488
Other assets	2,096	2,927
Deferred income taxes	1,127	1,453
Total assets	\$ 45,707	\$ 57,281
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 21,691	\$ 35,304
Dividend payable	-	638
Total current liabilities	21,691	35,942
Other liabilities	20	41
Total liabilities	21,711	35,983
Commitments and contingencies		
Stockholders' equity		
Common stock, \$.01 par value; authorized, 10,000,000 shares; issued 5,284,500 shares	53	53
Additional paid-in capital	29,406	29,252
Treasury stock, at cost, 605,104 shares and 687,879 shares, respectively	(2,376)	(1,905)
Accumulated deficit	(3,530)	(6,302)
Accumulated other comprehensive income	443	200
Total stockholders' equity	23,996	21,298

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Total liabilities and stockholders' equity	\$	45,707	\$	57,281
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The accompanying notes are an integral part of these condensed consolidated financial statements

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WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
 (Unaudited)

(In thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 132,752	\$ 125,479	\$ 41,790	\$ 48,679
Cost of sales	119,834	113,196	37,664	44,299
Gross profit	12,918	12,283	4,126	4,380
Selling, general and administrative expenses	8,998	8,999	2,962	3,109
Income from operations	3,920	3,284	1,164	1,271
Interest income, net	749	501	257	222
Realized foreign exchange gain	1	2	1	1
Income before income tax provision	4,670	3,787	1,422	1,494
Provision for income taxes	1,898	1,556	600	635
Net income	\$ 2,772	\$ 2,231	\$ 822	\$ 859
Net income per common share - Basic	\$ 0.63	\$ 0.54	\$ 0.19	\$ 0.20
Net income per common share - Diluted	\$ 0.59	\$ 0.50	\$ 0.18	\$ 0.19
Weighted average common shares outstanding- Basic	4,395	4,162	4,426	4,213
Weighted average common shares outstanding- Diluted	4,682	4,495	4,674	4,548
Reconciliation to comprehensive income:				
Net income	\$ 2,772	\$ 2,231	\$ 822	\$ 859
Other comprehensive income, net of tax:				
Unrealized gain on marketable securities	4	21	4	6
Foreign currency translation adjustments	239	74	77	16
Total comprehensive income	\$ 3,015	\$ 2,326	\$ 903	\$ 881

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WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 (Unaudited)

(In thousands, except share amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated other comprehensive Income	Total
Balance at January 1, 2007	5,284,500	\$53	\$29,252	\$(1,905)	\$(6,302)	\$200	\$21,298
Net income					2,772		2,772
Translation adjustment						239	239
Unrealized gain on available-for-sale securities						4	4
Exercise of stock options			542	452			994
Dividends paid			(1,345)				(1,345)
Tax benefit from exercises of non-qualified stock options			501				501
Share-based compensation expense			448				448
Restricted stock grants			8	(8)			-
Treasury shares repurchased			-	(915)			(915)
Balance at September 30, 2007	5,284,500	\$53	\$29,406	\$(2,376)	\$(3,530)	\$443	\$23,996

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

WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (In thousands)

	Nine months Ended September 30,	
	<u>2007</u>	<u>2006</u>
Net income	\$ 2,772	\$ 2,231
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	234	214
Provision for doubtful accounts	31	147
Deferred income taxes	1,032	688
Loss on sale of fixed assets	-	6
Share-based compensation expense	448	156
Changes in operating assets and liabilities:		
Accounts receivable	8,689	(3,449)
Inventory	16	957
Prepaid expenses and other current assets	(241)	(137)
Accounts payable and accrued expenses	(13,613)	5,083
Net change in other assets and liabilities	(23)	24
Net cash (used in) provided by operating activities	(655)	5,920
Cash flows from investing activities:		
Purchases of available-for-sale securities	(16,473)	(13,056)
Redemptions of available-for-sale securities	14,088	11,950
Capital expenditures	(358)	(297)
Proceeds from sale of fixed assets	-	10
Net cash used in investing activities	(2,743)	(1,393)
Cash flows from financing activities:		
Dividend paid	(1,983)	(2,228)
Proceeds from exercise of stock options	994	722
Treasury stock repurchased	(915)	(7)
Tax benefit from stock option exercises	501	736
Net cash used in financing activities	(1,403)	(777)
Effect of foreign exchange rate on cash	239	74
Net (decrease) increase in cash and cash equivalents	(4,562)	3,824
Cash and cash equivalents at beginning of period	13,832	7,369
Cash and cash equivalents at end of period	\$ 9,270	\$ 11,193
Supplemental Cash Flow Data		
Cash paid during the year for:		
Income taxes	\$ 506	\$ 258

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, 2007
(Unaudited)

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 Article 10 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 unaudited condensed consolidated statements of income 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, 2006.

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, 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.

1. In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. Statement 159 is effective for fiscal years beginning after November 15, 2007, and early application is allowed under certain circumstances. We are currently evaluating the impact of SFAS 159, but do not expect the adoption of SFAS 159 to have a material impact on our consolidated financial operations or cash flows.

In June 2006, the FASB issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48"), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. The Company has adopted the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these 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 defined. The only periods subject to examination for the Company's federal return are the 2005 through 2006 tax years. The audit of the tax year 2004 has been completed, with no adjustments proposed by the Internal Revenue Service. The current periods subject to examination for the Company's state returns in New Jersey are years 2002 through 2006. The current periods subject to examination for the Company's Canadian tax returns are the years 2003 through 2006. The Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements," which defines fair value, establishes guidelines for measuring fair value and expands

disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting

pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the Company has not yet issued financial statements, including for interim periods, for that fiscal year. We are currently evaluating the impact of SFAS 157, but do not expect the adoption of SFAS 157 to have a material impact on our consolidated financial position, results of operations or cash flows.

2. 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 nine months of 2007 was \$16.6 million as compared to \$16.2 million for the first nine months of 2006. The revenue from our Canadian operations for the third quarter of 2007 was \$5.1 million as compared to \$5.2 million for the third quarter of 2006.

3. Cumulative translation adjustments and unrealized gains (losses) on available-for-sale securities have been classified within accumulated other comprehensive income, which is a separate component of stockholders' equity.

4. The Company records revenues from sales transactions when title to products sold passes to the customer. Usual sales terms are FOB shipping point, at which time title and risk of loss has passed to the customer and delivery has occurred. The majority of the Company's revenues relate to products recognized on a gross basis with the selling price to the customer recorded as net sales and the acquisition cost of the product to the Company recorded as cost of sales. At the time of sale, the Company also records an estimate for sales returns based on historical experience. Certain software maintenance products, third party services and extended warranties sold by the Company (for which the Company is not the primary obligor) are recognized on a net basis in accordance with 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". 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.

In accordance with EITF 00-10, "Accounting for Shipping and Handling Fees and Costs", the Company records freight billed to its customers as net sales and the related freight costs as a cost of sales. 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 for Consideration Received from a Vendor by a Customer (Including a Reseller of the Vendor's Products)".

5. Investments in available-for-sale securities at September 30, 2007 were (in thousands):

	Cost	Market value	Unrealized gain
U.S. Government Securities	\$ 9,417	\$ 9,421	\$ 4

The cost and market value of the Company's investments at September 30, 2007 by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$ 9,417	\$ 9,421

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Investments in available-for-sale securities at December 31, 2006 were (in thousands):

	Cost	Market Value	Unrealized gain (loss)
U.S. Government Securities	\$ 6,941	\$ 6,941	-
Corporate Bonds	\$ 91	\$ 91	-
Total Marketable Securities	\$ 7,032	\$ 7,032	-

The cost and market value of the Company's investments at December 31, 2006 by contractual maturity were (in thousands):

	Cost	Estimated Fair Value
Due in one year or less	\$ 7,032	\$ 7,032

6. Balance Sheet Detail - (in thousands):

Other assets consisted of the following at September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006
Accounts Receivable - long-term	\$2,030	\$2,855
Security Deposits	56	56
Trademarks	10	16
Total	\$2,096	\$2,927