

Wayside Technology Group, Inc.
Form 10-Q
November 02, 2012

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, 2012

OR

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

For the transition period from _____ to _____

Commission File No. 000-26408

Wayside Technology Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3136104
(I.R.S. Employer Identification No.)

1157 Shrewsbury Avenue, Shrewsbury, New Jersey 07702

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(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 4,761,794 outstanding shares of common stock, par value \$.01 per share, (Common Stock) as of October 30, 2012, not including 522,706 shares classified as treasury stock

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

| | September 30, 2012 (Unaudited) | December 31, 2011 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 10,745 | \$ 9,202 |
| Marketable securities | 4,585 | 5,375 |
| Accounts receivable, net of allowances of \$1,666 and \$1,513, respectively | 49,051 | 47,066 |
| Inventory, net | 1,509 | 1,240 |
| Prepaid expenses and other current assets | 1,115 | 1,997 |
| Deferred income taxes | 352 | 329 |
| Total current assets | 67,357 | 65,209 |
| Equipment and leasehold improvements, net | 333 | 458 |
| Accounts receivable-long-term | 10,183 | 8,889 |
| Other assets | 72 | 54 |
| Deferred income taxes | 201 | 251 |
| Total assets | \$ 78,146 | \$ 74,861 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 46,782 | \$ 45,796 |
| Current portion - capital lease obligation | 76 | 76 |
| Total current liabilities | 46,858 | 45,872 |
| Long- term portion- capital lease obligation | | 55 |
| Total liabilities | 46,858 | 45,927 |
| Commitments and contingencies | | |
| Stockholders equity | | |
| Common Stock, \$.01 par value; 10,000,000 shares authorized, 5,284,500 shares issued; 4,761,794 and 4,679,878 shares outstanding, respectively | 53 | 53 |
| Additional paid-in capital | 27,431 | 26,725 |
| Treasury stock, at cost, 522,706 and 604,622 shares, respectively | (4,994) | (4,991) |
| Retained earnings | 8,265 | 6,818 |
| Accumulated other comprehensive income | 533 | 329 |
| Total stockholders equity | 31,288 | 28,934 |
| Total liabilities and stockholders equity | \$ 78,146 | \$ 74,861 |

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

WAYSIDE TECHNOLOGY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share data)

| | Nine months ended September 30, | | Three months ended September 30, | |
|---|------------------------------------|------------|-------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | \$ 211,610 | \$ 175,951 | \$ 75,534 | \$ 63,741 |
| Cost of sales | 194,755 | 159,768 | 69,836 | 57,984 |
| Gross profit | 16,855 | 16,183 | 5,698 | 5,757 |
| Selling, general and administrative expenses | 11,148 | 10,635 | 3,611 | 3,465 |
| Income from operations | 5,707 | 5,548 | 2,087 | 2,292 |
| Interest income, net | 394 | 264 | 140 | 92 |
| Realized foreign exchange gain | 13 | 1 | 12 | |
| Income before income tax provision | 6,114 | 5,813 | 2,239 | 2,384 |
| Provision for income taxes | 2,428 | 2,248 | 887 | 890 |
| Net income | \$ 3,686 | \$ 3,565 | \$ 1,352 | \$ 1,494 |
| Net income per common share - Basic | \$ 0.83 | \$ 0.81 | \$ 0.30 | \$ 0.34 |
| Net income per common share Diluted | \$ 0.80 | \$ 0.77 | \$ 0.29 | \$ 0.33 |
| Weighted average common shares outstanding-Basic | 4,467 | 4,411 | 4,502 | 4,406 |
| Weighted average common shares outstanding-Diluted | 4,635 | 4,618 | 4,643 | 4,575 |
| Dividends paid per common share | \$ 0.48 | \$ 0.48 | \$ 0.16 | \$ 0.16 |

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

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

(Unaudited)

(In thousands)

| | Nine months ended September 30, | | Three months ended September 30, | |
|--|------------------------------------|----------|-------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$ 3,686 | \$ 3,565 | \$ 1,352 | \$ 1,494 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustment | 197 | (141) | 204 | (229) |
| Unrealized gain (loss) on available- for -sale marketable securities | 7 | (12) | 2 | (16) |
| Other comprehensive income (loss) | 204 | (153) | 206 | (245) |
| Comprehensive income | \$ 3,890 | \$ 3,412 | \$ 1,558 | \$ 1,249 |

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)

(Dollars in thousands, except share amounts)

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Treasury Shares | Treasury Amount | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|--|------------------------|------------------------|----------------------------------|--------------------|--------------------|----------------------|---|-----------|
| Balance at January 1, 2012 | 5,284,500 | \$ 53 | \$ 26,725 | 604,622 | \$ (4,991) | \$ 6,818 | \$ 329 | \$ 28,934 |
| Net income | | | | | | 3,686 | | 3,686 |
| Translation adjustment | | | | | | | 197 | 197 |
| Unrealized gain on available-for-sale securities | | | | | | | 7 | 7 |
| Dividends paid | | | | | | (2,239) | | (2,239) |
| Stock options exercised | | | 124 | (63,500) | 306 | | | 430 |
| Share-based compensation expense | | | 743 | | | | | 743 |
| Restricted stock grants (net of forfeitures) | | | (332) | (68,475) | 332 | | | |
| Tax benefit from share-based compensation | | | 171 | | | | | 171 |
| Treasury shares repurchased | | | | 50,059 | (641) | | | (641) |
| Balance at September 30, 2012 | 5,284,500 | \$ 53 | 27,431 | 522,706 | (4,994) | 8,265 | 533 | 31,288 |

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, | |
|---|------------------------------------|----------|
| | 2012 | 2011 |
| Net income | \$ 3,686 | \$ 3,565 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 233 | 238 |
| Deferred income taxes | 26 | 340 |
| Provision for doubtful accounts receivable | 145 | 105 |
| Share-based compensation expense | 743 | 824 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (3,267) | 2,786 |
| Inventory | (268) | (266) |
| Prepaid expenses and other current assets | 885 | (267) |
| Accounts payable and accrued expenses | 923 | (5,779) |
| Net change in other assets and liabilities | (21) | (2) |
| Net cash provided by operating activities | 3,085 | 1,544 |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale securities | (5,575) | (4,161) |
| Redemptions of available-for-sale securities | 6,373 | 4,280 |
| Capital expenditures | (105) | (199) |
| Net cash provided by (used in) investing activities | 693 | (80) |
| Cash flows from financing activities: | | |
| Dividend paid | (2,239) | (2,247) |
| Treasury stock repurchased | (641) | (1,437) |
| Tax benefit from share-based compensation | 171 | 205 |
| Repayment of capital lease obligations | (55) | (62) |
| Proceeds from stock option exercises | 430 | 71 |
| Net cash used in financing activities | (2,334) | (3,470) |
| Effect of foreign exchange rate on cash | 99 | (92) |
| Net (decrease) increase in cash and cash equivalents | 1,543 | (2,098) |
| Cash and cash equivalents at beginning of period | 9,202 | 10,955 |
| Cash and cash equivalents at end of period | \$ 10,745 | \$ 8,857 |
| Supplementary disclosure of cash flow information: | | |
| Income taxes paid | \$ 2,598 | \$ 1,931 |

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, 2012

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, 2011.

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 2012 were \$16.8 million as compared to \$13.9 million for the first nine months of 2011. The sales from our Canadian operations for the third quarter of 2012 were \$5.4 million as compared to \$5.1 million for the third quarter of 2011.

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

4. 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 have passed to the customer and delivery has occurred. Revenue is recognized in accordance with ASC Topic 985-605 Software Revenue Recognition and ASC Topic 605-10-S99, and ASC Topic 605-45, Reporting Revenue Gross as a Principal versus Net as an Agent. The majority of the Company's revenues relates to physical products and is recognized on a gross basis with the selling price to the customer recorded as net sales 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. 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.

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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.

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5. 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 in which the related advertising expenditure is incurred. Cooperative reimbursements are recorded as reduction in cost of sales in accordance with ASC Topic 605-50 Accounting by a Customer (including reseller) for Certain Consideration Received from a Vendor.

6. The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value at September 30, 2012 and December 31, 2011 because of the relative short maturity of these instruments.

Investments in available-for-sale securities at September 30, 2012 were (in thousands):

| | Cost | Market value | Unrealized (loss) |
|-----------------------------|----------|--------------|-------------------|
| Certificates of deposit | \$ 4,597 | \$ 4,585 | \$ (12) |
| Total Marketable securities | \$ 4,597 | \$ 4,585 | \$ (12) |

The cost and market value of the Company's investments at September 30, 2012 determined by contractual maturity were (in thousands):

| | Cost | Estimated Fair Value |
|-------------------------|----------|----------------------|
| Due in one year or less | \$ 4,597 | \$ 4,585 |

Investments in available-for-sale securities at December 31, 2011 were (in thousands):

| | Cost | Market value | Unrealized (loss) |
|-----------------------------|----------|--------------|-------------------|
| Certificates of deposit | \$ 5,394 | \$ 5,375 | \$ (19) |
| Total Marketable securities | \$ 5,394 | \$ 5,375 | \$ (19) |

The cost and market value of the Company's investments at December 31, 2011 determined by contractual maturity were (in thousands):

| | Cost | Estimated Fair Value |
|-------------------------|----------|----------------------|
| Due in one year or less | \$ 5,394 | \$ 5,375 |

7. The Company accounts for the fair value measurement in accordance with FASB ASC Topic 820 Fair Value Measurement and Disclosure, which establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. The Company uses the following methods for determining fair value in accordance with ASC Topic 820. For assets and

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liabilities that are measured using quoted prices in active markets for the identical asset or liability, the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs (Level 1). Assets and liabilities that are measured using significant other observable inputs are valued by reference to similar assets or liabilities, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (Level 2). For all remaining assets and liabilities for which there are no significant observable inputs, fair value is derived using an assessment of various discount rates, default risk, credit quality and the overall capital market liquidity (Level 3).

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The following table summarizes the basis used to measure certain financial assets and liabilities at fair value on a recurring basis in the condensed consolidated balance sheets:

| (In thousands) Description | Balance at September 30, 2012 | Fair Value Measurements at September 30, 2012 Using | | |
|-------------------------------|-------------------------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Certificates of deposit | \$ 4,585 | \$ | \$ 4,585 | \$ |

| (In thousands) Description | Balance at December 31, 2011 | Fair Value Measurements at December 31, 2011 Using | | |
|-------------------------------|------------------------------------|---|---|--|
| | | Quoted Prices in Active Markets for Identical Items (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Certificates of deposit | \$ 5,375 | \$ | \$ 5,375 | \$ |

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

8. Balance Sheet Detail (in thousands):

Equipment and leasehold improvements consist of the following as of September 30, 2012 and December 31, 2011:

| | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| Equipment | \$ 2,805 | \$ 2,696 |
| Leasehold improvements | 562 | 560 |
| | 3,367 | 3,256 |
| Less accumulated depreciation and amortization | (3,034) | (2,798) |
| | \$ 333 | \$ 458 |

Accounts payable and accrued expenses consist of the following as of September 30, 2012 and December 31, 2011:

| | September 30, 2012 | December 31, 2011 |
|------------------------|-----------------------|----------------------|
| Trade accounts payable | \$ 43,935 | \$ 42,417 |
| Other accrued expenses | 2,847 | 3,379 |
| | \$ 46,782 | \$ 45,796 |

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Accumulated other comprehensive income consists of the following as of September 30, 2012 and December 31, 2011:

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| Foreign currency translation adjustments | \$ 545 | \$ 348 |
| Unrealized (loss) on marketable securities | (12) | (19) |
| | \$ 533 | \$ 329 |

9. Basic Earnings Per Share (EPS) is computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted EPS is computed considering the potentially dilutive effect of outstanding stock options and nonvested shares of restricted stock. A reconciliation of the numerators and denominators of the basic and diluted per share computations follows (in thousands, except share and per share data):

| | Nine months ended September 30, | | Three months ended September 30, | |
|--|---------------------------------------|----------|--|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income | \$ 3,686 | \$ 3,565 | \$ 1,352 | \$ 1,494 |
| Denominator: | | | | |
| Weighted average shares (Basic) | 4,467 | 4,411 | 4,502 | 4,406 |
| Dilutive effect of outstanding options and non-vested shares of restricted stock | 168 | 207 | 141 | 169 |
| Weighted average shares including assumed conversions (Diluted) | 4,635 | 4,618 | 4,643 | 4,575 |
| Basic net income per share | \$ 0.83 | \$ 0.81 | \$ 0.30 | \$ 0.34 |
| Diluted net income per share | \$ 0.80 | \$ 0.77 | \$ 0.29 | \$ 0.33 |

10. The Company had one major vendor that accounted for 14.5% and 13.6% of total purchases during the nine and three months, respectively, that ended September 30, 2012. The Company had one major vendor that accounted for 11.9% and 12.0% of total purchases during the nine and three months, respectively, that ended September 30, 2011. The Company had three major customers that accounted for 13.1%, 13.6% and 11.6%, respectively, of its total net sales during the nine months ended September 30, 2012, and 12.5%, 14.4% and 10.4% of total net sales for the three months then ended. These same customers accounted for 12.1%, 8.7% and 8.3%, respectively, of total net accounts receivable as of September 30, 2012. The Company had three major customers that accounted for 14.5%, 11.2% and 10.7%, respectively, of its total net sales during the nine months ended September 30, 2011, and 14.4%, 12.0% and 10.1% of total net sales for the three months then ended.

11. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2009. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

The provision consists of the following (in thousands):

| | Nine months ended September 30, | | Three months ended September 30, | |
|-----------------------------------|------------------------------------|----------|-------------------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Current: | | | | |
| Federal | \$ 1,872 | \$ 1,466 | \$ 664 | \$ 543 |
| State | 362 | 275 | 134 | 7 |
| Canada | 168 | 167 | 45 | 64 |
| | 2,402 | 1,908 | 843 | 614 |
| Deferred tax (benefit) expense | 26 | 340 | 44 | 276 |
| | \$ 2,428 | \$ 2,248 | \$ 887 | \$ 890 |
| Effective tax rate | 39.7% | 38.7% | 39.6% | 37.3% |

12. The 2012 Stock-Based Compensation Plan (the 2012 Plan) authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The total number of shares of Common Stock initially available for award under the 2012 Plan was 600,000. As of September 30, 2012, the number of shares of Common stock available for future award grants to employees and directors under the 2012 Plan is 600,000.

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, 2012, the number of shares of Common Stock available for future award grants to employees and directors under the 2006 Plan is 53,775.

During 2006, the Company granted a total of 315,000 shares of Restricted Stock to officers, directors and employees. Included in this grant were 200,000 Restricted Shares granted to the Company's CEO in accordance with his employment agreement. These 200,000 Restricted Shares vest over 40 equal quarterly installments. The remaining grants of Restricted Stock vest over 20 equal quarterly installments.

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

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

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

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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.

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During 2012, the Company granted a total of 72,000 shares of Restricted Stock to officers, directors and employees. These shares Restricted Shares 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.

Changes during 2012 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 Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value (\$M)(1) |
|-----------------------------------|----------------------|------------------------------------|---|---------------------------------------|
| Outstanding at January 1, 2012 | 374,140 | \$ 8.33 | | |
| Granted in 2012 | | | | |
| Canceled in 2012 | | | | |
| Exercised in 2012 | 63,500 | \$ 6.78 | | |
| Outstanding at September 30, 2012 | 310,640 | \$ 8.65 | 1.8 | \$ 1.2 |
| Exercisable at September 30, 2012 | 310,640 | \$ 8.65 | 1.8 | \$ 1.2 |

(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 28, 2012) and the exercise price of the outstanding options. The market value as of September 28, 2012 was \$12.45 per share represented by the closing price as reported by The Nasdaq Global Market on that day.

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

| | Shares | Weighted Average Grant Date Fair Value |
|--|----------|--|
| Nonvested shares at January 1, 2012 | 262,275 | \$ 10.44 |
| Granted in 2012 | 72,000 | 12.70 |
| Vested in 2012 | (73,950) | 10.05 |
| Forfeited in 2012 | (3,525) | 11.79 |
| Nonvested shares at September 30, 2012 | 256,800 | \$ 11.16 |

As of September 30, 2012, there is approximately \$2.9 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 3.5 years.

For the nine months ended September 30, 2012 and 2011, the Company recognized share-based compensation cost of approximately \$743,000 and \$824,000, respectively, which is included in the Company's selling, general and administrative expense.

13. 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

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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

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integrators primarily in the United States and Canada. 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 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 applicable 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; it does not allocate its other assets, including capital expenditures by segment.

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

| Revenue: | Nine months ended September 30, | | Three months ended September 30, | |
|---|------------------------------------|------------|-------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Lifeboat Distribution | \$ 158,838 | \$ 137,621 | \$ 55,989 | \$ 49,118 |
| TechXtend | 52,772 | 38,330 | 19,545 | 14,623 |
| | 211,610 | 175,951 | 75,534 | 63,741 |
| Gross Profit: | | | | |
| Lifeboat Distribution | \$ 11,336 | \$ 11,817 | \$ 3,707 | \$ 4,105 |
| TechXtend | 5,519 | 4,366 | 1,991 | 1,652 |
| | 16,855 | 16,183 | 5,698 | 5,757 |
| Direct Costs: | | | | |
| Lifeboat Distribution | \$ 3,310 | \$ 3,403 | \$ 1,071 | \$ 1,135 |
| TechXtend | 2,547 | 2,192 | 866 | 732 |
| | 5,857 | 5,595 | 1,937 | 1,867 |
| Segment Income: | | | | |
| Lifeboat Distribution | \$ 8,026 | \$ 8,414 | \$ 2,636 | \$ 2,970 |
| TechXtend | 2,972 | 2,174 | 1,125 | 920 |
| Segment Income | 10,998 | 10,588 | 3,761 | 3,890 |
| Corporate general and administrative expenses | \$ 5,291 | \$ 5,040 | \$ 1,674 | \$ 1,598 |
| Interest income, net | 394 | 264 | 140 | 92 |
| Foreign currency translation gain | 13 | 1 | 12 | |
| Income before taxes | \$ 6,114 | \$ 5,813 | \$ 2,239 | \$ 2,384 |
| Selected Assets By Segment: | | | | |
| Lifeboat Distribution | \$ 27,367 | | | |
| TechXtend | 33,375 | | | |
| Corporate assets | 17,404 | | | |
| Segment Selected Assets | \$ 78,146 | | | |

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, 2011, 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 2011 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 primarily in the United States and Canada. 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.

More generally, 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: overall pricing trends in the markets we serve; the availability and level of vendor rebates and discounts; the loss of any major vendor; condition of the software industry in general; shifts in demand for software products; our customers' ability to meet their payment obligations in a timely manner; industry shipments of new software products or upgrades; the timing of new merchandise and catalog offerings; fluctuations in response rates; fluctuations in postage, paper, shipping and printing costs and in merchandise returns; adverse weather conditions that affect response, distribution or shipping; shifts in the timing of holidays; and changes in the Company's product offerings. If revenues do not meet expectations in any given quarter, operating results may be materially adversely affected.

Results of Operations

The following table sets forth for the periods indicated certain financial information derived from the Company's 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:

| | Nine months ended September 30, | | Three months ended September 30, | |
|--|------------------------------------|--------|-------------------------------------|--------|
| | 2012 | 2011 | 2012 | 2011 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 92.0 | 90.8 | 92.5 | 91.0 |
| Gross profit | 8.0 | 9.2 | 7.5 | 9.0 |
| Selling, general and administrative expenses | 5.3 | 6.0 | 4.8 | 5.4 |
| Income from operations | 2.7 | 3.2 | 2.7 | 3.6 |

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| | | | | |
|---|------|------|------|------|
| Interest income, net | .2 | .1 | .3 | 0.1 |
| Realized foreign currency exchange gain | | | | |
| Income before income taxes | 2.9 | 3.3 | 3.0 | 3.7 |
| Provision for income taxes | 1.2 | 1.3 | 1.2 | 1.4 |
| Net income | 1.7% | 2.0% | 1.8% | 2.3% |

Net Sales

Net sales for the third quarter ended September 30, 2012 increased 19% or \$11.8 million to \$75.5 million compared to \$63.7 million for the same period in 2011. Net sales for the third quarter of 2012 for our Lifeboat Distribution segment were \$56.0 million compared to \$49.1 million in the third quarter of 2011, representing an increase of \$6.9 million or 14%. Net sales for the third quarter of 2012 for our TechXtend segment were \$19.5 million compared to \$14.6 million in the third quarter of 2011, representing an increase of \$4.9 million or 34%. The 14% increase in net sales from our Lifeboat Distribution segment was mainly a result of strengthening our account penetration, our continued focus on the expanding virtual infrastructure-centric business and the addition of several key product lines during the quarter. The 34% increase in sales in the TechXtend division was primarily due to an increase in larger extended payment terms transactions, solution focus selling and higher average order sizes in the third quarter of 2012.

For the nine months ended September 30, 2012, net sales increased 20% or \$35.7 million to \$211.6 million compared to \$176.0 million for the same period in 2011. Net sales for the nine months ended September 30, 2012 for our Lifeboat Distribution segment increased 15% or \$21.2 million to \$158.8 million compared to \$137.6 million for the same period in 2011. Net sales for the nine months ended September 30, 2012 for our TechXtend segment increased 38% or \$14.4 million to \$52.8 million compared to \$38.3 million for the same period in 2011. The 15% increase in net sales from our Lifeboat Distribution segment in the first nine months of 2012 compared to the same period in 2011 was mainly a result of strengthening our account penetration, our continued focus on the expanding virtual infrastructure-centric business and the addition of several key product lines. The 38% increase in sales in the TechXtend segment was primarily due to an increase in larger extended payment terms transactions, solution focus selling and face-to-face marketing events.

Gross Profit

Gross Profit for the third quarter ended September 30, 2012 was \$5.7 million, a 1% decrease as compared to \$5.8 million for the third quarter of 2011. Gross profit for our Lifeboat Distribution segment for the third quarter of 2012 was \$3.7 million compared to \$4.1 million in the third quarter of 2011, representing a 10% decrease. The decrease in gross profit for the Lifeboat Distribution segment was due to lower vendor rebate attainment and competitive pricing pressure within this segment. Gross profit for our TechXtend segment was \$2.0 million compared to \$1.6 million in the third quarter of 2011, representing a 21% increase. The increase in gross profit in the TechXtend segment was the result of the increased sales volume, at a lower gross margin as compared to 2011 and lower vendor rebates. Vendor rebates and discounts for the quarter ended September 30, 2012 amounted to \$0.5 million compared to \$0.7 million for the third quarter of 2011. Vendor rebates are dependent on reaching certain targets set by our vendors. Vendors have been periodically substantially increasing their target revenues for rebate eligibility. Therefore, despite our increasing revenue, vendor rebates have declined.

For the nine months ended September 30, 2012 gross profit increased by \$0.7 million to \$16.9 million compared to \$16.2 million for the same period in 2011. Lifeboat Distribution's gross profit for the nine months ended September 30, 2012 was \$11.3 million compared to \$11.8 million for the same period in 2011. The decrease in gross profit for the Lifeboat Distribution segment was due to lower vendor rebate attainment and competitive pricing pressure within this segment. TechXtend gross profit for the nine months ended September 30, 2012 was \$5.5 million compared to \$4.4 million for the same period in 2011. Vendor rebates and discounts for the nine months ended September 30, 2012 amounted to \$1.2 million compared to \$2.1 million for the nine month period ended September 30, 2011. Vendor rebates are dependent on reaching certain targets set by our vendors. Vendors have been periodically substantially increasing their target revenues for rebate eligibility. Therefore, despite our increasing revenue, vendor rebates have declined.

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Gross profit margin (gross profit as a percentage of net sales) for the third quarter ended September 30, 2012 was 7.5% compared to 9.0% for the third quarter of 2011. Gross profit margin for our Lifeboat Distribution segment for the third quarter of 2012 was 6.6% compared to 8.4% for the third quarter of 2011. Gross profit margin for our TechXtend segment for the third quarter of 2012 was 10.2% compared to 11.3% for the third quarter of 2011. Gross profit margin for the nine months ended September 30, 2012 was 8.0% compared to 9.2% in the same period in 2011. The decrease in gross profit margin was primarily caused by the continued pressure on discounts and rebates earned and competitive pricing pressure in both segments. In addition, the decrease was a result of winning several large bids, including transactions on extended payment terms and based on aggressive pricing, which we plan to continue.

The Company monitors gross profits and gross profit margins carefully. Price competition in our market intensified in 2012, with competitors lowering their prices significantly and the Company responded immediately. Although our sales volume increased substantially as a result, gross margins, as well as the rebates and discounts that are material elements of the Company's overall profitability, were negatively impacted during the quarter and for the nine months ended September 30, 2012. 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.

Selling, General and Administrative Expenses

Total selling, general, and administrative (SG&A) expenses for the third quarter of 2012 were \$3.6 million compared to \$3.5 million for the third quarter of 2011, representing an increase of \$0.1 million. This increase is primarily the result of an increase in sales commissions for our TechXtend segment, the addition of employees in sales, finance and operations to support business growth and higher professional fees. As a percentage of net sales, SG&A expenses for third quarter of 2012 were 4.8% compared to 5.4% for the third quarter of 2011.

For the nine months ended September 30, 2012, SG&A expenses were \$11.1 million compared to \$10.6 million in the same period in 2011, representing a \$0.5 million increase. This increase is primarily the result of an increase in sales commissions for our TechXtend segment, the addition of employees in sales, finance and operations to support business growth and higher marketing costs and professional fees. As a percentage of net sales, SG&A expenses were 5.3% for the nine months ended September 30, 2012 compared to 6.0% for the same period in 2011.

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 continue to monitor our SG&A expenses closely.

Direct selling costs (a component of SG&A) for the third quarter of 2012 were \$1.9 million compared to \$1.9 million for the third quarter of 2011. Total direct selling costs for our Lifeboat Distribution segment for the third quarter of 2012 were \$1.1 million compared to \$1.1 million for the same period in 2011. Total direct selling costs for our TechXtend segment for the third quarter of 2012 were \$0.9 million compared to \$0.7 million for the same period in 2011.

Foreign Currency Transactions Gain (Loss)

For the nine months ended September 30, 2012 the realized foreign exchange gain was \$13,000 compared to \$1,000 in the same period last year. Foreign exchange gains and losses primarily result from our trade activity with our Canadian subsidiary. Although the Company does maintain

bank accounts in Canadian currencies to reduce currency exchange fluctuations, the Company is, nevertheless, subject to risks associated with such fluctuations.

Income Taxes

For the quarter ended September 30, 2012, the Company recorded a provision for income taxes of \$887,000, which consists of a provision of \$664,000 for U.S. federal income taxes as well as a \$134,000 provision for state and local taxes and \$45,000 for Canadian taxes, and a deferred tax expense of \$44,000. For the quarter ended September 30, 2011, the Company recorded a provision for income taxes of \$890,000, which consists of a provision of \$543,000 for U.S. federal income taxes as well as a \$7,000 provision for state and local taxes and \$64,000 for Canadian taxes, and a deferred tax expense of \$276,000.

For the nine months ended September 30, 2012 the Company recorded a provision for income taxes of \$2,428,000, which consists of a provision of \$1,872,000 for U.S. federal income taxes as well as a \$362,000 provision for state and local taxes and \$168,000 for Canadian taxes, and a deferred tax expense of \$26,000. For the nine months ended September 30, 2011 the Company recorded a provision for income taxes of \$2,248,000, which consists of a provision of \$1,466,000 for U.S. federal income taxes as well as a \$275,000 provision for state and local taxes and \$167,000 for Canadian taxes, and a deferred tax expense of \$340,000.

Liquidity and Capital Resources

During the first nine months of 2012 our cash and cash equivalents increased by \$1.5 million to \$10.7 million at September 30, 2012, from \$9.2 million at December 31, 2011. During the first nine months of 2012, net cash provided by operating activities amounted to \$3.1 million; net cash provided by investing activities amounted to \$0.7 million and net cash used in financing activities amounted to \$2.3 million.

Net cash provided by operating activities in the first the nine months of 2012 was \$3.1 million and primarily resulted from \$4.8 million in net income excluding non-cash charges, and a decrease in prepaid expenses of \$0.9 million and an increase of \$0.9 million in accounts payable and accrued expenses partially offset by a \$3.3 million increase in accounts receivable and a \$0.3 million increase in inventory.

Net cash provided by investing activities in the first nine months of 2012 amounted to \$0.7 million. This primarily resulted from net sales of \$0.8 million in marketable securities partially offset by capital expenditures of \$0.1 million. These marketable securities are highly rated, highly liquid and are classified as available-for-sale securities in accordance with ASC Topic 320 Investments in Debt and Equity Securities, and as a result, unrealized gains and losses are reported as part of accumulated other comprehensive income.

Net cash used in financing activities in the first nine months of 2012 amounted to \$2.3 million. This consisted primarily of dividends paid of \$2.2 million and Common Stock repurchases of \$0.6 million partially offset by proceeds from stock options exercised of \$0.4 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 business plan contemplates our continuing use of our cash to pay vendors promptly in order to obtain more favorable terms.

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We believe that the funds held in cash and cash equivalents will be sufficient to fund our working capital and cash requirements for at least the next 12 months. Currently we do not have any credit facility.

Contractual Obligations as of September 30, 2012 were summarized as follows:

(Dollars in thousands)

| Payment due by Period Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|--|--------------|-------------------------|------------------|------------------|--------------------------|
| Long-Term Debt | | | | | |
| Capital Lease Obligations | \$ 76 | \$ 76 | | | |
| Operating Leases (1) | \$ 1,153 | \$ 336 | \$ 817 | | |
| Purchase Obligations | | | | | |
| Other Long Term Obligations | | | | | |
| Total Contractual Obligations | \$ 1,229 | \$ 412 | \$ 817 | \$ | \$ |

(1) Operating leases relate primarily to the leases of the space used for our operations in Shrewsbury, New Jersey, Mississauga, Canada and Almere, Netherlands. The commitments for operating leases include the minimum rent payments and a proportionate share of operating expenses and property taxes.

The Company is not committed by lines of credit or standby letters of credit, and has no standby repurchase obligations or other commercial debt commitments. The Company is not engaged in any transactions with related parties.

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 in the Canadian Dollar to U.S. Dollar exchange rate.

Off-Balance Sheet Arrangements

As of September 30, 2012, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's unaudited condensed consolidated financial statements that have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Generally, 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 as previously described herein. The Company expenses the advertising costs associated with producing its catalogs. The costs of these catalogs are expensed in the same month the catalogs are mailed.

On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, income taxes, stock-based compensation and costs associated with exit or disposal activities, and contingencies and litigation.

The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company's actual results may differ from these estimates.

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

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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 in an amount 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 valuing shares of our Restricted Stock 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 Common Stock based compensation awards granted in future periods. Such changes may lead to a significant change in the expense we recognize in connection with share-based compensation.

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 statements regarding industry prospects and the Company's expected financial position, results of operations (including sales and gross profit margin), business and financing plans, are forward-looking statements. These statements can be identified by forward-looking words such as may, will, expect, intend, anticipate, estimate and continue or 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 be 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. 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, 2011.

The Company operates in a rapidly changing business environment, and new risk factors emerge from time to time. Management cannot predict every risk factor, nor can it assess the impact, if any, that all such risk factors may have on the Company's business or the extent to which any one risk factor, or any combination of risk 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. Unless otherwise required by law, 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.

Stock Volatility. The technology sector and the United States stock markets continue to experience substantial volatility. Numerous conditions, which impact the technology sector or the stock markets in general, and/or the Company in particular, whether or not such events relate to or reflect upon the Company's operating performance, could adversely affect the market price of the Company's Common Stock.

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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 operating expenses, and other developments, could have a significant impact on the market price of the Company's Common Stock.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In addition to its activities in the United States, the Company also conducts business in Canada. We are subject to general risks attendant to the conduct of business in Canada, including economic uncertainties and foreign government regulations. In addition, the Company's Canadian business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. See *Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Foreign Currency Transactions Gain (Loss)*.

The Company's \$4.6 million investments in marketable securities at September 30, 2012 are invested in insured certificates of deposit. The remaining 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 is responsible for and 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 Financial Officer (principal financial officer). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial 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 Financial 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, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION**Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth the purchase of Common Stock by the Company and its affiliated purchasers during the third quarter of 2012.

ISSUER PURCHASE OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid Per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Average Price Paid Per Share (3) | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (4)(5) |
|---------------------------------------|---|---|---|---|--|
| July 1, 2012- July 31, 2012 | | | | | 394,092 |
| August 1, 2012- August 31, 2012 | 28,673(1) | \$ 12.69 | 19,373 | \$ 12.71 | 374,719 |
| September 1, 2012- September 30, 2012 | | | | | 374,719 |
| Total | 28,673 | \$ 12.69 | 19,373 | \$ 12.71 | 374,719 |

(1) Includes 9,300 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 July 31, 2008, the Company approved the increase of its Common Stock repurchase program by an additional 500,000 shares. 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.

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(5) Following the end of the third quarter, on October 23, 2012, the Board of Directors of the Company approved, and on October 29, 2012, the Company entered into a written purchase plan intended to comply with the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Plan). Purchases involving shares of the Company's Common Stock under the Plan may take place commencing October 29, 2012, and the Plan is intended to be in effect until October 29, 2014. Pursuant to the Plan, the Company's broker shall effect purchases of up to an aggregate of 350,000 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 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 Thomas J. Flaherty, the Chief Financial Officer (principal financial officer) of the Company.

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

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Thomas J. Flaherty, the Chief Financial 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, 2012, filed with the SEC on November 2, 2012, 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, tagged as blocks of text.*

*Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections

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 2, 2012

By:

/s/ Simon F. Nynens

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Date

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

November 2, 2012

Date

By: /s/ Thomas J. Flaherty
Thomas J. Flaherty, Vice President and
Chief Financial Officer