Gastar Exploration Inc.
Form 8-K
October 29, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): October 25, 2018

GASTAR EXPLORATION INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	001-35211	38-3531640
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1331 LAMAR STREET, SUITE 650
HOUSTON, TEXAS 77010
(Address of principal executive offices)

(713) 739-1800

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

SECTION 1 – REGISTRANT'S BUSINESS AND OPERATIONS

Item 1.01Entry into a Material Definitive Agreement.

Restructuring Support Agreements

After an extensive private marketing process, beginning in August 2018, Gastar Exploration Inc. ("Gastar") embarked on a public marketing process to try to address its balance sheet liabilities. On August 21, 2018, Gastar publicly filed a process letter that again invited proposals and informed the public how any interested party could participate and make a proposal. The process letter established the bid deadline of October 1, 2018 (the "Bid Deadline"). Gastar received three bids on the Bid Deadline, none of which provided a basis for repaying Gastar's indebtedness described below. Gastar's board of directors (the "Board") determined that none of these proposals presented an actionable alternative.

In parallel with the foregoing marketing process, Gastar engaged with funds affiliated with Ares Management LLC ("Ares") regarding a comprehensive financial restructuring transaction. On October 26, 2018, Gastar and its subsidiary (collectively, the "Company") entered into a restructuring support agreement (the "RSA") with (i) AF V Energy I Holdings, L.P., an affiliate of Ares (the "Consenting Term Lender") and party to the Third Amended and Restated Credit Agreement, dated March 3, 2017 (as amended, restated, modified, or supplemented form time to time, the "Term Credit Agreement") (ii) certain holders affiliated with Ares (the "Consenting Noteholders") of the Company's Convertible Notes due 2022 issued pursuant to the indenture dated March 3, 2017 (as amended, restated, modified or supplemented from time to time, the "Second Lien Indenture"), by and among Gastar, as issuer, the guarantors specified therein and Wilmington Trust, National Association, as trustee and collateral agent and (iii) certain holders affiliated with Ares (the "Ares Equity Holders" together with the Consenting Term Lender and the Consenting Noteholders, the "Consenting Parties") of Gastar's outstanding common shares (the "Existing Common Equity"), to support a restructuring (the "Restructuring") on the terms set forth in the term sheet annexed to the RSA (the "Restructuring Term Sheet"). The RSA contemplates that the Company will file for voluntary relief under chapter 11 (the "Chapter 11 Cases") of the United States Bankruptcy Code (the "Bankruptcy Code") in a United States Bankruptcy Court (the "Bankruptcy Court") to implement the Restructuring pursuant to a "prepackaged" plan of reorganization (the "Plan") and the various related transactions set forth in or contemplated by the Restructuring Term Sheet, the DIP Term Sheet (defined below) and the Exit Facility Term Sheet (defined below). Shortly after entering into the RSA, the Company commenced solicitation of the Plan consistent with section 1126(b) of the Bankruptcy Code, which solicitation the Company anticipates will conclude on or about October 30, 2018. After the conclusion of such solicitation, the Company intends to commence the Chapter 11 Cases to implement the transactions contemplated by the RSA and Plan.

Pursuant to the terms of the RSA and the Restructuring Term Sheet, the Consenting Parties and other interest holders will receive treatment under the Plan summarized as follows:

- holders of claims under the DIP Facility (defined below) arising on account of the New Money Loans (defined below) will receive pro rata participation in the First Lien Exit Facility (defined below) in an amount equal to such claims arising on account of New Money Loans;
- holders of claims under the DIP Facility, other than claims arising on account of the New Money Loans, will receive (a) pro rata participation in the Second Lien Exit Facility (defined below) up to an aggregate amount of $200 million and (b) to the extent any such claims exceed $200 million, such excess will receive a pro rata share of 100% of the common equity in the reorganized Company (the "New Common Equity");
- holders of claims under the Term Credit Agreement will receive (a) to the extent there is remaining availability under the Second Lien Exit Facility, pro rata participation in the Second Lien Exit Facility in an equal face amount not to exceed $200 million and (b) to the extent any such claims remain outstanding, their pro rata share of 100% of the New Common Equity, subject to dilution upon the issuance of common stock upon exercise of the New Warrants

described below and pursuant to a new management incentive plan to be entered into at the discretion of the board of the reorganized Company following emergence from bankruptcy (the “Management Incentive Plan”);

- holders of claims under the Second Lien Indenture will receive their pro rata share of 100% of the New Common Equity, subject to dilution upon the issuance of common stock upon exercise of the New Warrants described below and pursuant to the Management Incentive Plan;
- holders of claims arising out of any termination of the Company's hedging or swap arrangements with Cargill, Inc. and NextEra Energy Marketing, LLC (collectively, the "Hedge Parties") will receive payment in full in cash in monthly installments through December 2019 pursuant to new secured notes;
- holders of claims arising pursuant to statutory liens will receive payment in full in cash in two equal installments on the effective date of the Chapter 11 Cases and six months following such date;
- holders of claims arising from general unsecured obligations will receive payment in full in cash as set forth in the Plan;
- subject to certain conditions, including that such holders not seek official committee status or the appointment of a trustee or examiner, or object to or otherwise oppose the consummation of the Plan, holders of Gastar's 8.625% Series A Cumulative Preferred Stock and 10.75% Series B Cumulative Preferred Stock (collectively, the "Existing Preferred Equity") will receive their pro rata share of warrants to purchase 2.5% of the New Common Equity; and
- subject to certain conditions, including that such holders not seek official committee status or the appointment of a trustee or examiner, or object to or otherwise oppose the consummation of the Plan, holders of the Existing Common Equity will receive their pro rata share of warrants to purchase 2.5% of the New Common Equity (together with the warrants listed in the previous bullet, the "New Warrants").

In the event that a DIP Toggle Event (as defined in the Restructuring Term Sheet) has occurred, (i) holders of claims arising from general unsecured obligations will receive a pro rata share of the New Common Equity and (ii) all Existing Preferred Equity and Existing Common Equity and Subordinated Securities Claims will be canceled, released, and extinguished without distribution. The occurrence of a DIP Toggle Event will not affect the other treatments contemplated by the RSA as listed above.

The RSA contains certain covenants on the part of each of the Company and the Consenting Parties, including limitations on the parties' ability to pursue alternative transactions, commitments by the Consenting Parties to vote in favor of the Plan and commitments of the Company and the Consenting Parties to negotiate in good faith to finalize the documents and agreements governing the Plan. The RSA also provides for certain conditions to the obligations of the parties and for termination upon the occurrence of certain events, including without limitation, the failure to achieve certain milestones and certain breaches by the parties under the RSA.

Also on October 26, 2018, the Company and the Hedge Parties entered into that certain Hedge Party Restructuring Support Agreement (the "Hedge Party RSA"). The Hedge Party RSA and term sheet appended thereto provide for the treatment of claims held by Hedge Parties described above. The Hedge Party RSA contains certain covenants on the part of each of the Company and the Hedge Parties, including commitments by the Hedge Parties to vote in favor of the Plan and commitments of the Company and the Hedge Parties to negotiate in good faith to finalize certain documents and agreements. The Hedge Party RSA also provides for certain conditions to the obligations of the parties and for termination upon the occurrence of certain events, including without limitation, the failure to achieve certain milestones and certain breaches by the parties under the Hedge Party RSA.

Debtor-in-Possession Financing

In connection with the Chapter 11 Cases, certain Consenting Parties and/or their affiliates have agreed to provide, on a committed basis, the Company with superpriority debtor-in-possession financing (the “DIP Facility”) on the terms set forth in the term sheet attached to the RSA (the “DIP Term Sheet”). The DIP Term Sheet provides that, among other things:

- the DIP Facility shall be comprised of term loans in an aggregate amount of approximately $383.9 million, consisting of $100 million of new money loans (the “New Money Loans”) and approximately $283.9 million of refinanced term loan obligations outstanding under the Term Credit Agreement;

- upon entry of and subject to a Bankruptcy Court order granting interim approval of the DIP Facility and subject to the satisfaction or waiver of additional conditions precedent, up to $15 million of the New Money Loans (the “Interim DIP Tranche”) may be drawn by the Company upon three business days’ notice in one or more draws in an amount that is not less than $2.5 million for the initial draw and not less than $500,000 for each subsequent draw (or, if less, the entire amount of the unused balance of the Interim DIP Tranche);

- upon entry of and subject to a Bankruptcy Court order granting final approval (the “Final Order”) of the DIP Facility, and subject to the satisfaction or waiver of additional conditions precedent and an approved budget, up to $100 million of New Money Loans, minus any amounts of New Money Loans previously drawn by the Company prior to such date (the resulting amount, the “Final DIP Tranche”) may be drawn by the Company upon three business days’ notice in one or more draws in an amount not less than $500,000 for each draw (or, if less, in the entire amount of the unused balance of the Final DIP Tranche);

- upon entry of and subject to the Final Order and subject to the satisfaction or waiver of additional conditions precedent, including the Company having demonstrated to the reasonable satisfaction of the DIP Lenders acting in good faith, the bona fide need for additional liquidity to preserve lease operating rights in response to actions taken or proposed to be taken by third parties, an amount equal to $100 million minus the amount of New Money Loans previously drawn by the Company prior to such date (the resulting amount, the “Reserve DIP Tranche”) may be drawn by the Company upon three business days’ notice in one or more draws in an amount not less than $500,000 for each draw (or, if less, in the entire amount of the unused balance of the Reserve DIP Tranche); and

- subject to entry of the Final Order, approximately $283.9 million in outstanding term loan obligations consisting of principal and accrued and unpaid interest under the Term Credit Agreement as of the date of the commencement of the Chapter 11 Cases will be repaid from the loans (not constituting New Money Loans) funded under the DIP Facility.

The DIP Facility is subject to approval by the Bankruptcy Court, which has not been obtained at this time. The foregoing description of the DIP Term Sheet does not purport to be complete and is qualified in its entirety by reference to the final, executed documents memorializing the DIP Facility, as approved by the Bankruptcy Court.

Exit Financing

In connection with the Chapter 11 Cases, certain Consenting Parties and/or their affiliates have agreed to provide, on a committed basis, the Company with an exit financing term loan facility (the “Exit Facility”) on the terms set forth in the term sheet attached to the RSA (the “Exit Facility Term Sheet”). The Exit Facility Term Sheet provides for, among other

things, (a) a $100 million secured delayed draw term loan facility (the “First Lien Exit Facility”) comprised of (i) term loans consisting of New Money Loans funded under the DIP Facility and deemed funded under the First Lien Exit Facility on the effective date of the Plan and (ii) term loan commitments consisting of an amount equal to any undrawn commitment under the DIP Facility and (b) a secured term loan facility (the “Second Lien Exit Facility”) comprised of up to $200 million (as may be reduced by the Exit Lenders in their sole discretion on or prior to the effective date of the Plan), in

aggregate principal amount of term loans deemed funded on the effective date of the Plan and consisting of DIP Claims and Term Loan Claims (each as defined in the RSA), as applicable (the loans under the First Lien Exit Facility and the Second Lien Exit Facility, collectively, the “Exit Loans”). The Exit Loans may not be reborrowed once repaid.

The Exit Facility is subject to customary closing conditions and approval by the Bankruptcy Court, which has not been obtained at this time. The foregoing description of the Exit Facility Term Sheet does not purport to be complete and is qualified in its entirety by reference to the final, executed documents memorializing the Exit Facility, as approved by the Bankruptcy Court.

Although the Company intends to pursue the restructuring in accordance with the terms set forth in the RSA, there can be no assurance that the Company will be successful in completing a restructuring or any other similar transaction on the terms set forth in the RSA, on different terms or at all.

The foregoing descriptions of the RSA, including the Restructuring Term Sheet the DIP Term Sheet and the Exit Facility Term Sheet attached thereto, and the Hedge Party RSA, are qualified by reference to the full text of such agreements, copies of which are filed herewith as Exhibit 10.1 and 10.2, respectively, and are incorporated herein by reference.

Item 1.02Termination of a Material Definitive Agreement

On October 25, 2018, the Board terminated the Company’s Amended and Restated Change of Control Severance Agreement (the “CIC Plan”), dated as of February 15, 2008, as amended, which provided for severance payments to certain employees of the Company upon certain changes in control.

SECTION 2 – FINANCIAL INFORMATION

Item 2.03Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

The information set forth under the captions “Debtor-in-Possession Financing” and “Exit Financing” in Item 1.01 above are incorporated into this Item 2.03 by reference.

SECTION 5 – CORPORATE GOVERNANCE AND MANAGEMENT

Item 5.02Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Amendments to Employment Agreements

On October 25, 2018, Gastar entered into an amendment (the “Roberts Amendment”) to its employment agreement with Stephen Roberts effective as of September 7, 2018 (the “Roberts Agreement”). The Roberts Amendment amends the Roberts Agreement to provide that he will not be eligible for any benefits under the CIC Plan and that Mr. Roberts has no further rights under the CIC Plan.

On October 25, 2018, Gastar entered into an amendment (the “Gerlich Amendment”) to its employment agreement with Michael Gerlich effective as of September 10, 2018 (the “Gerlich Agreement”). The Gerlich Amendment amends the Gerlich Agreement to specify that (i) the Company ceasing to be a publicly traded company will not constitute “Good Reason” under the Gerlich Agreement and (ii) the acquisition of a controlling interest resulting from the Chapter 11 Cases or by Ares or its affiliates will not constitute a “Change of Control” under the Gerlich Agreement. The Gerlich Amendment further provides that he will not be eligible for any benefits under the CIC Plan and that Mr. Gerlich has no further rights under the CIC Plan.

Amendments to Retention Bonus Agreements

On October 25, 2018, Gastar entered into amendments (the "Retention Bonus Amendments") to the retention bonus agreement letters (the "Retention Bonus Letters"), dated August 31, 2018, by and between Gastar and each of Mr. Roberts, Mr. Gerlich and Jerry Schuyler. The Retention Bonus Amendments amend each of the respective Retention Bonus Letters to specify that the definition of "Change in Control" therein does not include a change of control resulting from the acquisition of a controlling interest from the Chapter 11 Cases or an acquisition by Ares or its affiliates. In addition, the Retention Bonus Amendments with Mr. Gerlich and Mr. Roberts provide that 100% of the retention bonus is repayable by the employee if he terminates employment without Good Reason or if the Company terminates his employment without Cause (as such terms are defined in the Retention Bonus Letters) prior to February 28, 2019, and 50% of the retention bonus is payable by the employee if such a termination occurs between February 28, 2019 and April 30, 2019.

The foregoing descriptions of the Roberts Amendment, the Gerlich Amendment and the Retention Bonus Amendments is qualified by reference to the full text of each such agreement, copies of which are filed herewith as Exhibit 10.3, 10.4, 10.5, 10.6 and 10.7, respectively, and incorporated herein by reference.

SECTION 7 – REGULATION FD

Item 7.01 Regulation FD Disclosure

The Company issued a press release on October 26, 2018 announcing entry into the RSA. A copy of the press release is furnished hereto as Exhibit 99.1 and is incorporated herein by reference.

In accordance with General Instruction B.2 of Form 8-K, the information presented herein under Item 7.01 and set forth in the attached press release included in Exhibit 99.1 to this report is deemed to be "furnished" solely pursuant to Item 7.01 of this report and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall such information or the exhibit be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act.

SECTION 9 – FINANCIAL STATEMENTS AND EXHIBITS

Item 9.01Financial Statements and Exhibits.

(d) Exhibits

The following is a list of exhibits filed as part of this Form 8-K:

Exhibit No.	Description of Document
10.1	Restructuring Support Agreement.
10.2	Hedge Party Restructuring Support Agreement.
10.3	Employment Agreement Amendment, by and between Gastar Exploration Inc. and Stephen Roberts, executed October 25, 2018.
10.4	Employment Agreement Amendment, by and between Gastar Exploration Inc. and Michael A. Gerlich, executed October 25, 2018.
10.5	Retention Bonus Agreement Amendment, by and between Gastar Exploration Inc. and Stephen Roberts, executed October 25, 2018.
10.6	Retention Bonus Agreement Amendment, by and between Gastar Exploration Inc. and Michael A. Gerlich, executed October 25, 2018.
10.7	Retention Bonus Agreement Amendment, by and between Gastar Exploration Inc. and Jerry Schuyler, executed October 25, 2018.
99.1	Press Release, dated October 26, 2018.

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 hereunto duly authorized.

Date: October 29, 2018	GASTAR EXPLORATION INC.
	By: /s/ Michael A. Gerlich
	Michael A. Gerlich
	Senior Vice President and Chief Financial Officer

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Cost of sales	86,335
	66,192
Gross profit	

	6,356
	5,538
Selling, general and administrative expenses	
	4,466
	4,045
Income from operations	
	1,890
	1,493

Other income:

Interest, net

98

123

Foreign currency transaction loss

(1

)

(12

)

Income before provision for income taxes	
	1,987
	1,604
Provision for income taxes	
	684
	545

Net income	$ 1,303	$ 1,059
Income per common share Basic	$ 0.28	$ 0.23

Income per common share Diluted	
$	0.28
$	0.23
Weighted average common shares outstanding Basic	
	4,690
	4,538

Weighted average common shares outstanding Diluted	4,718	4,615
Dividends paid per common share	$ 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)

	Three months ended March 31,	
	2015	**2014**
Net income	$ 1,303	$ 1,059
Other comprehensive loss, net of tax:		
Foreign currency translation adjustment	(609)	(282)
Other comprehensive loss	(609)	(282)
Comprehensive income	$ 694	$ 777

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		Additional Paid-In	Treasury		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Shares	Amount	Earnings	Loss	Total
Balance at January 1, 2015	5,284,500	$ 53	$ 31,013	393,744	$ (6,166)	$ 15,225	$ (558)	$ 39,567
Net income						1,303		1,303
Translation adjustment							(609)	(609)
Dividends paid						(827)		(827)
Share-based compensation expense			267					267
Restricted stock grants (net of forfeitures)			(257)	(44,000)	257			
Stock options exercised			174	(25,320)	151			325
Tax benefit from share-based compensation			70					70
Treasury stock repurchased				156,172	(2,543)			(2,543)
Balance at March 31, 2015	5,284,500	$ 53	31,267	480,596	(8,301)	15,701	(1,167)	37,553

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)

	Three months ended March 31, 2015	2014
Cash flows from operating activities		
Net income	$ 1,303	$ 1,059
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	60	59
Deferred income tax expense (benefit)	1	(12)
Provision for doubtful accounts receivable	3	
Share-based compensation expense	267	327
Changes in operating assets and liabilities:		
Accounts receivable	4,987	3,901
Inventory	(713)	82
Prepaid expenses and other current assets	(416)	906
Accounts payable and accrued expenses	(4,004)	(14,155)
Other assets	40	(2)
Net cash provided by (used in) operating activities	1,528	(7,835)
Cash flows used in investing activities		
Purchase of equipment and leasehold improvements	(40)	(69)
Net cash used in investing activities	(40)	(69)
Cash flows (used in) provided by financing activities		
Dividends paid	(827)	(787)
Purchase of treasury stock	(2,543)	(184)
Tax benefit from share-based compensation	70	239
Proceeds from stock option exercises	325	867
Net cash (used in) provided by financing activities	(2,975)	135
Effect of foreign exchange rate on cash	(272)	(122)
Net decrease in cash and cash equivalents	(1,759)	(7,891)
Cash and cash equivalents at beginning of period	23,124	19,609
Cash and cash equivalents at end of period	$ 21,365	$ 11,718
Supplementary disclosure of cash flow information:		
Income taxes paid	$ 532	$ 621

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

Wayside Technology Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 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.

2. In May 2014, the 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 standard is effective for our reporting year beginning January 1, 2017 and early adoption is not permitted. We are currently evaluating the impact of this new accounting pronouncement, if any, the pronouncement will have on our financial statements.

3. 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 for the first quarter of 2015 and 2014 were $5.6 million in each of these periods.

4. Cumulative translation adjustments 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.

5. 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.

Wayside Technology Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2015

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

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.

6. The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value at March 31, 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.

7. Balance Sheet Detail:

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

	March 31, 2015	December 31, 2014
Equipment	$ 2,781	$ 2,744
Leasehold improvements	561	565
	3,342	3,309
Less accumulated depreciation and amortization	(2,950)	(2,897)
	$ 392	$ 412

Wayside Technology Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

March 31, 2015

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

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

	March 31, 2015	December 31, 2014
Trade accounts payable	$ 47,918	$ 52,328
Accrued expenses	3,290	3,086
	$ 51,208	$ 55,414

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

	March 31, 2015	December 31, 2014
Foreign currency translation adjustment	$ (1,167)	$ (558)
	$ (1,167)	$ (558)

8. 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.

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

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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 March 31, 2015.

At March 31, 2015, the Company had no borrowings outstanding under the Credit Facility.

9. 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:

	Three months ended March 31,			
		2015		2014
Numerator:				
Net income	$	1,303	$	1,059
Denominator:				
Weighted average shares (Basic)		4,690		4,538
Dilutive effect of outstanding options and non-vested shares of restricted stock		28		77
Weighted average shares including assumed conversions (Diluted)		4,718		4,615
Basic income per share	$	0.28	$	0.23
Diluted income per share	$	0.28	$	0.23

10. The Company had two major vendors that accounted for 25.6% and 10.0%, respectively, of total purchases during the three months ended March 31, 2015. The Company had one major vendor that accounted for 10.3% of total purchases during the three months ended March 31, 2014. The Company had two major customers that accounted for 18.5% and 17.8%, respectively, of its total net sales during the three months ended March 31, 2015. These same customers accounted for 21.9% and 11.2%, respectively, of total net accounts receivable as of March 31, 2015. The Company had three major customers that accounted for 15.7%, 15.6% and 10.5%, respectively, of its total net sales during the three months ended March 31, 2014.

11. 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 March 31, 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

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tax returns are open for examination for the years 2011 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 the three months ended March 31, 2015 was 34.5% compared to 34.0% for the same period last year.

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 March 31, 2015, the number of shares of Common stock available for future award grants to employees and directors under the 2012 Plan is 469,848.

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 March 31, 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.

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. 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. 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. A total of 34,487 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

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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.

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 Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life		Aggregate Intrinsic Value ($M)(1)
Outstanding at January 1, 2015	50,640	$	12.85			
Granted in 2015						
Canceled in 2015						
Exercised in 2015	(25,320)		12.85			
Outstanding at March 31, 2015	25,320	$	12.85	0.1	$	0.1
Exercisable at March 31, 2015	25,320	$	12.85	0.1	$	0.1

(1) The intrinsic value of an option is calculated as the difference between the market value on the last trading day of the quarter (March 31, 2015) and the exercise price of the outstanding options. The market value as of March 31, 2015 was $17.62 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 the 2012 Plan and 2006 Plan as of March 31, 2015, and changes during the three months then ended is as follows:

	Shares		Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2015	162,609	$	14.36
Granted in 2015	44,000		14.99
Vested in 2015	(19,887)		13.67
Forfeited in 2015			
Nonvested shares at March 31, 2015	186,722	$	14.15

As of March 31, 2015, there is approximately $2.6 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.0 years.

For each of the three months ended March 31, 2015 and 2014, the Company recognized share-based compensation cost of $0.3 million, which is included in the Company s general and administrative expense.

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13. 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.

The following segment reporting information of the Company is provided:

	Three months ended March 31,	
	2015	**2014**
Revenue:		
Lifeboat Distribution	$ 82,945	$ 59,259
TechXtend	9,746	12,471
	92,691	71,730
Gross Profit:		
Lifeboat Distribution	$ 5,234	$ 4,116
TechXtend	1,122	1,422
	6,356	5,538
Direct Costs:		
Lifeboat Distribution	$ 1,777	$ 1,231
TechXtend	594	794

		2,371		2,025
Segment Income:				
Lifeboat Distribution	$	3,457	$	2,885
TechXtend		528		628
Segment Income		3,985		3,513
General and administrative	$	2,095	$	2,020
Interest, net		98		123
Foreign currency translation (loss)		(1)		(12)
Income before taxes	$	1,987	$	1,604

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	As of March 31, 2015	As of December 31, 2014
Selected Assets By Segment:		
Lifeboat Distribution	$ 41,134	$ 39,780
TechXtend	23,992	30,153
Segment Select Assets	65,126	69,933
Corporate Assets	23,635	25,048
Total Assets	$ 88,761	$ 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:

	Three months ended March 31,	
	2015	2014
Net sales	100%	100%
Cost of sales	93.1	92.3
Gross profit	6.9	7.7
Selling, general and administrative expenses	4.9	5.6
Income from operations	2.0	2.1
Interest income, net	0.1	0.2
Income before income taxes	2.1	2.3
Provision for income taxes	0.7	0.8
Net income	1.4%	1.5%

Net Sales

Net sales for the first quarter ended March 31, 2015 increased 29% or $21.0 million to $92.7 million compared to $71.7 million for the same period in 2014. Total sales for the first quarter of 2015 for our Lifeboat Distribution segment were $82.9 million compared to $59.3 million in the first quarter of 2014, representing an increase of $23.7 million or 40%. Total sales for the first quarter of 2015 for our TechXtend segment were $9.7 million compared to $12.5 million in the first quarter of 2014, representing a decrease of $2.7 million or 22%.

The 40% 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 22% decrease in net sales in the TechXtend segment was primarily due to a decrease in extended payment terms sales transactions and large transactions as compared to the first quarter ended March 31, 2014.

Gross Profit

Gross Profit for the first quarter ended March 31, 2015 was $6.4 million, a 15% increase as compared to $5.5 million for the first quarter of 2014. Gross profit for our Lifeboat segment in the first quarter of 2015 was $5.2 million compared to $4.1 million for the first quarter of 2014, representing a 27% increase. The increase for the Lifeboat segment was primarily due to increased sales volume. Gross profit for our TechXtend segment in the first quarter of 2015 was $1.1 million compared to $1.4 million for the first quarter of 2014, representing a 21% decrease. This decrease for the TechXtend segment was primarily due to the decreased sales volume in the current year.

Gross profit margin (gross profit as a percentage of net sales) for the first quarter ended March 31, 2015 was 6.9% compared to 7.7% for the first quarter of 2014. Gross profit margin for our Lifeboat Distribution segment for the first quarter of 2015 was 6.3% compared to 6.9% for the first quarter of 2014. The decrease in gross profit margin for the Lifeboat Distribution segment was primarily caused by a change in our product mix with an increase in sales of lower margin products. Gross profit margin for our TechXtend segment for the first quarter of 2015 was essentially flat at 11.5% compared to 11.4% for the first quarter of 2014.

Vendor rebates and discounts for the quarter ended March 31, 2015 amounted to $0.6 million compared to $0.4 million for the first quarter of 2014, with an increase in vendor rebates for the Lifeboat distribution segment partially offset by a decrease in vendor rebates for the TechXtend segment. Vendor rebates are dependent on reaching certain targets set by our vendors. Vendors have been periodically substantially increasing their target revenues for rebate eligibility. 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 first quarter of 2015 were $4.5 million compared to $4.0 million for the first quarter of 2014, representing an increase of $0.4 million or 10.4%. This increase is primarily the result of an increase in employee and employee related expenses (salaries, commissions, bonus accruals and benefits) in 2015 compared to 2014. As a percentage of net sales, SG&A expenses for first quarter of 2015 were 4.9% compared to 5.6% for the first quarter of 2014.

Direct selling costs (a component of SG&A) for the first quarter of 2015 were $2.4 million compared to $2.0 million for the first quarter of 2014. Total direct selling costs for our Lifeboat Distribution segment for the first quarter of 2015 were $1.8 million compared to $1.2 million for the same period in 2014. Total direct selling costs for our TechXtend segment for the first quarter of 2015 were $0.6 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 March 31, 2015, the Company recorded a provision for income taxes of $684,000 or 34.5% of income, compared to $545,000 or 34.0% of income for the same period in 2014.

Liquidity and Capital Resources

During the first three months of 2015 our cash and cash equivalents decreased by $1.8 million to $21.4 million at March 31, 2015, from $23.1 million at December 31, 2014. During the first three months of 2015, net cash provided by operating activities amounted to $1.5 million, net cash used in investing activities amounted to less than $0.1 million and net cash used in financing activities amounted to $3.0 million.

Net cash provided by operating activities in the first the three months of 2015 was $1.5 million and primarily resulted from $1.6 million in net income excluding non-cash charges, a $5.0 million decrease in accounts receivable offset in part by a decrease of $4.0 in accounts payable and accrued expenses an increase of $0.7 million in inventory and an increase of $0.4 million in prepaid and other current assets. The decreases in accounts receivable and accounts payable and accrued expenses were mainly due to lower sales volume, in the first quarter of 2015 compared to the fourth quarter of 2014.

Net cash used in investing activities in the first three months of 2015 amounted to less than $0.1 million. This was the result of capital expenditures of less than $0.1 million.

Net cash used in financing activities in the first three months of 2015 amounted to $3.0 million. This consisted primarily of dividends paid of $0.8 million and treasury stock repurchases of $2.5 million offset in party by proceeds from stock option exercises of $0.3 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.

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 March 31, 2015 are summarized as follows:

Payment due by Period	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt obligations					
Capital Lease obligations					
Operating Lease obligations (1)	$ 408	$ 286	$ 122		
Purchase Obligations					
Other Long term Obligations reflected on the Company s Balance Sheet under GAAP					
Total Contractual Obligations	$ 408	$ 286	$ 122		

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

As of March 31, 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 8 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 March 31, 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.

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, 6.1% of the Company sales during the three months ended March 31, 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 March 31, 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 first quarter of 2015.

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)
January 1, 2015- January 31, 2015	9,926	$ 17.10	9,926	$ 17.10	694,021
February 1, 2015- February 28, 2015	19,690(1)	17.15	12,300	17.20	681,721
March 1, 2015- March 31, 2015	126,556	16.09	126,556	16.09	555,165
Total	156,172	$ 16.29	148,782	$ 16.25	555,165

(1) Includes 7,390 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. 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.

(5) On October 29, 2014, the Board of Directors approved, and on November 10, 2014, 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 Common Stock under the Plan commenced November 10, 2014, and the Plan is intended to be in effect until May 10, 2015. Pursuant to the Plan, the Company s broker shall effect purchases of up to an aggregate of 210,000 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 March 31, 2015, filed with the SEC on May 8, 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
May 8, 2015 Date	By:	/s/ Simon F. Nynens Simon F. Nynens, Chairman of the Board, President and Chief Executive Officer
May 8, 2015	By:	/s/ Kevin T. Scull
Date		Kevin T. Scull, Vice President and Chief Accounting Officer