
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2021

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.)

4 Industrial Way West, Suite 300, Eatontown, New Jersey 07724

(Address of principal executive offices)

(732) 389-8950

Registrant's Telephone Number

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class:</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered:</u>
Common stock, \$.01 par value	WSTG	The NASDAQ Global Market

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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.

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 4,405,876 outstanding shares of common stock, par value \$.01 per share ("Common Stock") as of May 5, 2021.

Wayside Technology Group, Inc. and Subsidiaries
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PART I — FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS**

Wayside Technology Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Amounts in thousands, except share and per share amounts)

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,747	\$ 29,348
Accounts receivable, net of allowances of \$910 and \$892, respectively	95,412	93,821
Inventory, net	4,190	4,936
Vendor prepayments and advances	7,531	1,235
Prepaid expenses and other current assets	3,777	3,837
Total current assets	<u>144,657</u>	<u>133,177</u>
Equipment and leasehold improvements, net	2,275	2,308
Goodwill	17,457	16,816
Other intangibles, net	10,753	10,625
Right-of-use assets, net	1,856	1,933
Accounts receivable-long-term, net	135	304
Other assets	510	257
Deferred income tax assets	67	113
Total assets	<u>\$ 177,710</u>	<u>\$ 165,533</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 126,832	\$ 116,692
Lease liability, current portion	505	490
Total current liabilities	<u>127,337</u>	<u>117,182</u>
Lease liability, net of current portion	2,051	2,167
Deferred income tax liabilities	1,573	1,467
Total liabilities	<u>130,961</u>	<u>120,816</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value; 10,000,000 shares authorized; 5,284,500 shares issued: 4,411,197 and 4,361,997 shares outstanding, respectively	53	53
Additional paid-in capital	31,358	31,962
Treasury stock, at cost, 873,303 and 922,503 shares, respectively	(13,921)	(14,747)
Retained earnings	28,961	28,191
Accumulated other comprehensive income (loss)	298	(742)
Total stockholders' equity	<u>46,749</u>	<u>44,717</u>
Total liabilities and stockholders' equity	<u>\$ 177,710</u>	<u>\$ 165,533</u>

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

Wayside Technology Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(Unaudited)
(Amounts in thousands, except per share data)

	Three months ended	
	March 31,	
	2021	2020
Net sales	\$ 62,813	\$ 62,618
Cost of sales	51,970	54,454
Gross profit	10,843	8,164
Selling, general, and administrative expenses	8,412	5,404
Legal and financial advisory expenses, net - unsolicited bid and related matters	—	1,323
Acquisition related costs	—	403
Amortization and depreciation expense	399	96
Income from operations	2,032	938
Other income:		
Interest, net	10	62
Foreign currency transaction (loss) gain	(91)	115
Income before provision for income taxes	1,951	1,115
Provision for income taxes	431	279
Net income	<u>\$ 1,520</u>	<u>\$ 836</u>
Income per common share-Basic	<u>\$ 0.35</u>	<u>\$ 0.18</u>
Income per common share-Diluted	<u>\$ 0.35</u>	<u>\$ 0.18</u>
Weighted average common shares outstanding — Basic	<u>4,247</u>	<u>4,447</u>
Weighted average common shares outstanding — Diluted	<u>4,247</u>	<u>4,447</u>
Dividends paid per common share	<u>\$ 0.17</u>	<u>\$ 0.17</u>

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)

	<u>Three months ended</u>	
	<u>March 31,</u>	
	<u>2021</u>	<u>2020</u>
Net income	\$ 1,520	\$ 836
Other comprehensive income:		
Foreign currency translation adjustments	1,040	(501)
Other comprehensive income (loss)	<u>1,040</u>	<u>(501)</u>
Comprehensive income	<u>\$ 2,560</u>	<u>\$ 335</u>

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

Wayside Technology Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(Amounts in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Treasury		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount		Shares	Amount			
Balance at January 1, 2021	5,284,500	\$ 53	\$ 31,962	922,503	\$ (14,747)	\$ 28,191	\$ (742)	\$ 44,717
Net income	—	—	—	—	—	1,520	—	1,520
Translation adjustment	—	—	—	—	—	—	1,040	1,040
Dividends paid	—	—	—	—	—	(750)	—	(750)
Share-based compensation expense	—	—	279	—	—	—	—	279
Restricted stock grants (net of forfeitures)	—	—	(883)	(52,190)	883	—	—	—
Treasury shares repurchased	—	—	—	2,990	(57)	—	—	(57)
Balance at March 31, 2021	<u>5,284,500</u>	<u>\$ 53</u>	<u>\$ 31,358</u>	<u>873,303</u>	<u>\$ (13,921)</u>	<u>\$ 28,961</u>	<u>\$ 298</u>	<u>\$ 46,749</u>

	Common Stock		Additional Paid-In Capital	Treasury		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount		Shares	Amount			
Balance at January 1, 2020	5,284,500	53	32,874	778,807	(13,256)	26,715	(1,130)	\$ 45,256
Net income	—	—	—	—	—	836	—	836
Translation adjustment	—	—	—	—	—	—	(501)	(501)
Dividends paid	—	—	—	—	—	(775)	—	(775)
Share-based compensation expense	—	—	167	—	—	—	—	167
Restricted stock grants (net of forfeitures)	—	—	(1,080)	(63,810)	1,079	—	—	(1)
Treasury shares repurchased	—	—	—	2,059	(32)	—	—	(32)
Balance at March 31, 2020	<u>5,284,500</u>	<u>\$ 53</u>	<u>\$ 31,961</u>	<u>717,056</u>	<u>\$ (12,209)</u>	<u>\$ 26,776</u>	<u>\$ (1,631)</u>	<u>\$ 44,950</u>

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	
	2021	2020
Cash flows from operating activities		
Net income	\$ 1,520	\$ 836
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization expense	399	96
Deferred income tax expense	106	132
Share-based compensation expense	279	167
Amortization of discount on accounts receivable	(25)	(62)
Amortization of right-of-use assets	120	112
Change in fair value of contingent earn-out consideration	13	—
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(1,173)	(7,821)
Inventory	746	507
Prepaid expenses and other current assets	64	100
Vendor prepayments	(3,301)	(460)
Accounts payable and accrued expenses	9,887	4,150
Lease liability, net	(143)	(134)
Other assets and liabilities	(258)	15
Net cash and cash equivalents provided by (used in) operating activities	<u>8,234</u>	<u>(2,362)</u>
Cash flows from investing activities		
Purchase of equipment and leasehold improvements	(123)	1
Vendor advances	(2,994)	—
Net cash and cash equivalents (used in) provided by investing activities	<u>(3,117)</u>	<u>1</u>
Cash flows from financing activities		
Purchase of treasury stock	(57)	(32)
Borrowings under revolving credit facility	—	1,300
Repayments of borrowings under revolving credit facility	—	(1,300)
Dividends paid	(750)	(775)
Net cash and cash equivalents used in financing activities	<u>(807)</u>	<u>(807)</u>
Effect of foreign exchange rate on cash and cash equivalents	89	(229)
Net increase in cash and cash equivalents	4,399	(3,397)
Cash and cash equivalents at beginning of year	29,348	14,984
Cash and cash equivalents at end of year	<u>\$ 33,747</u>	<u>\$ 11,587</u>
Supplementary disclosure of cash flow information:		
Income taxes paid	\$ 130	\$ 108
Interest paid	\$ 11	\$ 14

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, 2021
(Unaudited)
(Amounts in tables in thousands, except share and per share amounts)

1. Basis of Presentation:

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, as permitted by the rules and regulation of the Securities and Exchange Commission, 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 and 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, intangible assets, income taxes, stock-based compensation, evaluation of performance obligations and allocation of revenue to distinct items, 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 of the results for the periods presented, have been included in the accompanying condensed consolidated 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, 2020.

The consolidated financial statements include the accounts of Wayside Technology Group, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

2. Recently Issued Accounting Standards:

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, “*Financial Instruments - Credit Losses (Topic 326)*” (“ASU 2016-13”). ASU 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. Originally, ASU 2016-13 was effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. In November 2019, FASB issued ASU 2019-10, “*Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*.” This ASU defers the effective date of ASU 2016-13 for public companies that are considered smaller reporting companies as defined by the SEC to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is planning to adopt this standard in the first quarter of fiscal 2023. The Company is currently evaluating the potential effects of adopting the provisions of ASU No. 2016-13 on its Consolidated Financial Statements, particularly its recognition of allowances for accounts receivable.

3. Foreign Currency Translation:

Assets and liabilities of the Company’s foreign subsidiaries have been translated using the end of the reporting period exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the period. Foreign currency transaction gains and losses are recorded as income or expenses as amounts are settled. The net sales from our foreign operations for the three months ended March 31, 2021 and 2020 were \$16.7 million and \$4.7 million, respectively.

4. Comprehensive Income:

Cumulative translation adjustments have been classified within accumulated other comprehensive loss, which is a separate component of stockholders' equity in accordance with FASB ASC Topic 220, "Comprehensive Income."

5. Revenue Recognition:

The Company's revenues primarily result from the sale of various technology products and services, including third-party products, third-party software and third-party maintenance, software support and services. The Company recognizes revenue as control of the third-party products and third-party software is transferred to customers, which generally happens at the point of shipment or fulfillment and at the point that our customer and vendor accept the terms and conditions of the arrangement for third-party maintenance, software support and services.

The Company has contracts with certain customers where the Company's performance obligation is to arrange for the products or services to be provided by another party. In these arrangements, as the Company assumes an agency relationship in the transaction, revenue is recognized in the amount of the net fee associated with serving as an agent. These arrangements primarily relate to third party maintenance, cloud services and certain security software whose intended functionality is dependent on third party maintenance.

The Company allows its customers to return product for exchange or credit subject to certain limitations. A liability is recorded at the time of sale for estimated product returns based upon historical experience and an asset is recognized for the amount expected to be recorded in inventory upon product return. The Company also provides rebates and other discounts to certain customers which are considered variable consideration. A provision for customer rebates and other discounts is recorded as a reduction of revenue at the time of sale based on an evaluation of the contract terms and historical experience.

The Company considers shipping and handling activities as costs to fulfill the sales of products. Shipping revenue is included in net sales when control of the product is transferred to the customer, and the related shipping and handling costs are included in cost of products sold. Taxes imposed by governmental authorities on the Company's revenue producing activities with customers, such as sales taxes and value added taxes, are excluded from net sales.

The Company disaggregates its operating revenue by segment, geography and timing of revenue recognition, which the Company believes provides a meaningful depiction of the nature of its revenue. See segment Note 16.

Hardware and software products sold by the Company are generally delivered via shipment from the Company's facilities, drop shipment directly from the vendor, or by electronic delivery of keys for software products. The majority of the Company's business involves shipments directly from its vendors to its customers, in these transactions, the Company is generally responsible for negotiating price both with the vendor and customer, payment to the vendor, establishing payment terms with the customer, product returns, and has risk of loss if the customer does not make payment. As the principal with the customer, the Company recognizes revenue upon receiving notification from the vendor that the product was shipped. Control of software products is deemed to have passed to the customer when they acquire the right to use or copy the software under license as substantially all product functionality is available to the customer at the time of sale.

The Company performs an analysis of the number of days of sales in-transit to customers at the end of each reporting period based on an analysis of commercial delivery terms that include drop-shipment arrangements. This analysis is the basis upon which the Company estimates the amount of net sales in-transit at the end of the period and adjusts revenue and the related costs to reflect only what has been delivered to the customer. Changes in delivery patterns may result in a different number of business days estimated to make this adjustment. The Company also performs a weighted average analysis of the estimated number of days between order fulfillment and beginning of the renewal term for term licenses recorded on a gross basis, and a deferral estimate is recorded for term license renewals fulfilled prior to commencement date.

Generally, software products are sold with accompanying third-party delivered software assurance, which is a product that allows customers to upgrade, at no additional cost, to the latest technology if new capabilities are introduced during the period that the software assurance is in effect. The Company evaluates whether the software assurance is a separate performance obligation by assessing if the third-party delivered software assurance is critical or essential to the core functionality of the software itself. This involves considering if the software provides its original intended functionality to the customer without the updates, if the customer would ascribe a higher value to the upgrades versus the up-front deliverable, if the customer would expect frequent intelligence updates to the software (such as updates that maintain the original functionality), and if the customer chooses to not delay or always install upgrades. If the Company determines that the accompanying third-party delivered software assurance is critical or essential to the core functionality of the software license,

the software license and the accompanying third-party delivered software assurance are recognized as a single performance obligation. The value of the product is primarily the accompanying support delivered by a third party and therefore the Company is acting as an agent in these transactions and recognizes them on a net basis at the point the associated software license is delivered to the customer. The Company sells cloud computing solutions that utilize third-party vendors to enable customers to access data center functionality in a cloud-based solution, including storage, computing and networking and access to software in the cloud that enhances office productivity, provides security or assists in collaboration. The Company recognizes revenue for cloud computing solutions for arrangements with one-time invoicing to the customer at the time of invoice on a net basis as the Company is acting as an agent in the transaction. For monthly subscription-based arrangements, the Company is acting as an agent in the transaction and recognizes revenue as it invoices the customer for its monthly usage on a net basis. For software licenses where the accompanying third-party delivered software assurance is not critical or essential to the core functionality, the software assurance is recognized as a separate performance obligation, with the associated revenue recognized on a net basis at the point the related software license is delivered to the customer.

The Company also sells some of its products and services as part of bundled contract arrangements containing multiple deliverables, which may include a combination of products and services. For each deliverable that represents a distinct performance obligation, total arrangement consideration is allocated based upon the standalone selling prices (“SSP”) of each performance obligation. SSP is determined based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through established standard prices, we use judgement and estimate the standalone selling price considering available information such as market pricing and pricing related to similar products.

The Company records freight billed to its customers as net sales and the related freight costs as cost of sales when the underlying product revenue is recognized. For freight not billed to its customers, the Company records the freight costs as cost of sales. The Company’s typical shipping terms result in shipping being performed before the customer obtains control of the product. The Company considers shipping to be a fulfillment activity and not a separate performance obligation.

The Company pays commissions and related payroll taxes to sales personnel when customers are invoiced. These costs are recorded as selling general and administrative expenses in the period earned as all our performance obligations are complete within a short window of processing the order.

6. **Acquisition:**

Acquisition of Interwork Technologies

On April 30, 2020, the Company completed the purchase of Interwork Technologies Inc., a Delaware corporation and Interwork Technologies Inc., a corporation incorporated under the laws of the Province of Ontario, Canada (collectively, “Interwork”) for an aggregate purchase price of \$5 million Canadian dollar (equivalent to \$3.6 million USD), subject to certain working capital adjustments, paid at closing plus a potential post-closing \$1.1 million Canadian dollar (equivalent to \$0.8 million USD) earn-out. The purchase price allocation is final.

The purchase consideration included approximately \$0.8 million of potential earn-out consideration if certain targets are achieved, payable in cash. As of March 31, 2021, the Company reassessed the earn-out liability and increased the fair value of the earn-out liability to approximately \$0.9 million, with less than \$0.1 million adjustment recognized within selling, general and administrative expenses during the three months ended March 31, 2021. The earn-out liability is included in accounts payable and accrued expenses as of March 31, 2021 as payment would be due in the third quarter of 2021.

There were no acquisition related costs incurred during the three months ended March 31, 2021. The Company incurred acquisition related costs of approximately \$0.4 million during the three months ended March 31, 2020 in conjunction with the acquisition of Interwork, which are reflected in the accompanying consolidated statements of earnings.

Acquisition of CDF Group Limited

On November 6, 2020, the Company entered into a Share Purchase Agreement and purchased the entire share capital of CDF Group Limited (“CDF”) for an aggregate purchase price of approximately £13.3 million (equivalent to approximately \$17.4 million USD), subject to certain working capital and other adjustments. The allocation of the purchase price was based upon the estimated fair value of CDF’s net tangible and identifiable intangible assets as of the date of the acquisition. The transaction was accounted for under the purchase method of accounting.

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The financial position and operating results of CDF is included in the Company's consolidated financial statements for the three months ended March 31, 2021. The Company recorded net revenue for CDF of approximately \$8.4 million and net income of approximately \$0.4 million during the three months ended March 31, 2021.

The impact of the acquisition's preliminary purchase price allocations on the Company's consolidated balance sheet and the acquisition date fair value of the total consideration transferred is depicted in the table below. Due to the timing of the closing of the transaction in the fourth quarter of 2020, the Company has not yet completed its evaluation and determination of certain assets acquired and liabilities assumed, primarily (i) the final valuation of goodwill and intangible assets, (ii) capitalized software, and (iii) the final evaluation and assessment of income tax accounts; therefore the final fair value of the assets acquired and liabilities assumed may vary from the Company's preliminary estimates:

(in thousands)

Cash	\$	8,463
Trade accounts receivable		8,093
Other current assets		260
Equipment and leasehold improvements, net		1,367
Intangible assets		
Customer relationships (13-year useful life)		6,357
Trademarks (15-year useful life)		504
Non-compete (1-year useful life)		42
Goodwill		12,774
Other assets		375
Accounts payable and other current liabilities		(12,364)
Deferred income tax liabilities		(1,461)
Other liabilities		(306)
Net assets	\$	<u>24,104</u>

(in thousands)

Supplementary information:

Cash paid to sellers	\$	24,104
Cash acquired in acquisition		(8,463)
Net cash paid for acquisition	\$	<u>15,641</u>

Estimated intangible assets are comprised of approximately \$6.4 million of customer relationships with an amortization period of 13 years and \$0.5 million of tradenames with an amortization period of 15 years, representing the expected periods of benefits. Goodwill is the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined company and assembled workforce. Goodwill recognized as a result of the acquisition is not deductible for income tax purposes.

The preliminary allocation of the purchase price for the acquisition of CDF was allocated based on information that is currently available. The Company's estimates and assumptions underlying the initial allocations is subject to the collection of information necessary to complete its allocations within the measurement period, which is up to one year from the acquisition date.

7. **Goodwill and Other Intangible Assets:**

The following table summarizes the changes in the carrying amount of goodwill for the three months ended March 31, 2021:

Balance at January 1, 2021	\$	16,816
Translation adjustments		641
Balance March 31, 2021	\$	17,457

Goodwill acquired through our acquisition of CDF is provisional for a period of up to one year from the acquisition date.

Information related to the Company's other intangibles, net is as follows:

	As of March 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer and vendor relationships	\$ 10,694	\$ 482	\$ 10,212
Trade name	529	15	514
Non-compete	53	26	27
Total	\$ 11,276	\$ 523	\$ 10,753

	As of December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer and vendor relationships	\$ 10,361	\$ 272	\$ 10,089
Trade name	504	5	499
Non-compete	50	13	37
Total	\$ 10,915	\$ 290	\$ 10,625

Customer relationships are amortized over thirteen years. Vendor relationships are amortized between eleven and fifteen years. Trade name is amortized over fifteen years. Non-compete is amortized over one year. Intangible assets acquired through our acquisition of CDF are provisional for a period of up to one year from the acquisition date.

During the three months ended March 31, 2021, the Company recognized total amortization expense for other intangibles, net of \$0.2 million. There was no amortization expense for other intangibles, net during the three months ended March 31, 2020.

Estimated future amortization expense of the Company's other intangibles, net as of March 31, 2021 is as follows:

2021 (excluding the three months ended March 31, 2021)	\$	656
2022		839
2023		839
2024		839
2025		839
Thereafter		6,741
Total	\$	10,753

8. **Right-of-use Asset and Lease Liability:**

The Company has entered into operating leases for office and warehouse facilities, which have terms at lease commencement that range from 2 years to 11 years. The Company determines if an arrangement is a lease at inception. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and lease expense for these leases is recognized on a straight-line basis over the lease term.

Right-of-use (“ROU”) assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date of the lease based on the present value of the lease payments over the lease term. As our leases do not provide a readily determinable implicit rate, we use an incremental borrowing rate based on the information available at commencement date, including lease term, in determining the present value of future payments. The operating lease asset also includes any lease payments made and excludes lease incentives. Operating lease expense is recognized on a straight-line basis over the lease term and included in selling, general and administrative expenses.

Information related to the Company’s right-of-use assets and related lease liabilities were as follows:

	Three months ended	
	March 31,	
	2021	2020
Cash paid for operating lease liabilities	\$ 159	\$ 120
Right-of-use assets obtained in exchange for new operating lease obligations	\$ 38	\$ —
Weighted-average remaining lease term	5.8 years	6.9 years
Weighted-average discount rate	3.5%	3.4%

Maturities of lease liabilities as of March 31, 2021 were as follows:

2021 (excluding the three months ended March 31, 2021)	\$ 441
2022	500
2023	536
2024	546
2025	556
Thereafter	677
	<u>3,256</u>
Less: imputed interest	(700)
Total lease liabilities	<u>\$ 2,556</u>
Lease liabilities, current portion	505
Lease liabilities, net of current portion	2,051
Total lease liabilities	<u>\$ 2,556</u>

9. **Fair Value:**

The carrying amounts of financial instruments, including cash and cash equivalents, short-term accounts receivable and accounts payable approximated fair value at March 31, 2021 and December 31, 2020 because of the relative short maturity of these instruments. The Company’s accounts receivable long-term are discounted to their present value at prevailing market rates at the time of sale.

10. **Balance Sheet Detail:**

Equipment and leasehold improvements consist of the following:

	March 31, 2021	December 31, 2020
Equipment	\$ 2,561	\$ 2,482
Capitalized software	784	777
Leasehold improvements	1,764	1,760
	5,109	5,019
Less accumulated depreciation and amortization	(2,834)	(2,711)
	<u>\$ 2,275</u>	<u>\$ 2,308</u>

During the three months ended March 31, 2021 and 2020, the Company recorded depreciation and amortization expense of \$0.3 million and \$0.2 million, respectively.

In limited circumstances, the Company offers extended payment terms to customers for periods of 12 to 36 months. The related customer receivables are classified as accounts receivable long-term and discounted to their present value at prevailing market rates at the time of sale. In subsequent periods, the accounts receivable is 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 under these long-term accounts receivable due within one year are reclassified to the current portion of accounts receivable. At times the Company sells receivables to a financial institution on a non-recourse basis for cash, less a discount. The net proceeds from such sales are included in the operating section of the statement of cash flows as changes in accounts receivable. Accounts receivable long term, net consists of the following:

	March 31, 2021	December 31, 2020
Total amount due from customer	\$ 1,610	\$ 1,853
Less: unamortized discount	(38)	(49)
Less: current portion included in accounts receivable	(1,437)	(1,500)
	<u>\$ 135</u>	<u>\$ 304</u>

The undiscounted cash flows to be received by the Company relating to these accounts receivable long-term expects to be \$1.5 million, \$0.1 million and \$0.1 million during the 12-month periods ending March 31, 2022, 2023 and 2024, respectively.

Accounts payable and accrued expenses consist of the following:

	March 31, 2021	December 31, 2020
Trade accounts payable	\$ 118,937	\$ 107,045
Accrued expenses	7,895	9,647
	<u>\$ 126,832</u>	<u>\$ 116,692</u>

11. **Credit Facility:**

On November 15, 2017, the Company entered into a \$20,000,000 revolving credit facility (the “Credit Facility”) with Citibank, N.A. (“Citibank”) pursuant to a Second Amended and Restated Revolving Credit Loan Agreement (the “Loan Agreement”), Second Amended and Restated Revolving Credit Loan Note (the “Note”), Second Amended and Restated Security Agreement and Second Amended and Restated Pledge and Security Agreement. On August 31, 2020, the Company entered into an amendment to the Credit Facility (the “Amended Credit Facility”) pursuant to a First Amendment to Second Amended and Restated Revolving Credit Loan Agreement and Other Loan Documents (collectively, the “Amended Loan Agreement”) and First Allonge to Second Amended and Restated Revolving Credit Loan Note (the “Amended Note”).

The Amended Credit Facility, which will continue to be used for working capital and general corporate purposes, matures on June 30, 2023, at which time the Company must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any, fees, costs and expenses. In addition, the Company will pay regular monthly payments of all accrued and unpaid interest. The interest rate for any borrowings under the Amended Credit Facility is subject to change from time to time based on the changes in the LIBOR Rate, as defined in the Amended Loan Agreement (the “Index”). The Index was 2.50% at March 31, 2021. Interest on the unpaid principal balance of the Amended Note will be calculated using a rate of 1.75 percentage points over the Index. If the Index becomes unavailable during the term of the Amended Credit Facility, interest will be based upon the Benchmark Replacement (as defined in the Amended Loan Agreement) selected by Citibank after notifying the Company. The Amended Credit Facility is secured by the assets of the Company.

Among other affirmative covenants set forth in the Loan Agreement, which were not amended as part of the Amended Credit Facility, the Company must maintain (i) a minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of not less than 2.0 to 1.0, (ii) a maximum Leverage Ratio (as defined in the Loan Agreement) of at least 2.5 to 1.0, and (iii) a minimum Collateral Coverage Ratio (as defined in the Loan Agreement) of not less than 1.5 to 1.0. Additionally, the Loan Agreement contains negative covenants, which were not amended as part of the Amended Credit Facility, prohibiting, among other things, the creation of certain liens, the alteration of the nature or character of the Company’s business, and transactions with the Company’s shareholders, directors, officers, subsidiaries and/or affiliates other than with respect to (i) the repurchase of the issued and outstanding capital stock of the Company from the stockholders of the Company or (ii) the declaration and payment of dividends to the stockholders of the Company. The Company was in compliance with all such covenants at March 31, 2021 and December 31, 2020.

At March 31, 2021 and December 31, 2020, the Company had no borrowings outstanding under the Credit Facility.

Subsequent to the quarter end, on April 13, 2021, Wayside Technology UK Holdings Limited (“Wayside UK”), a wholly-owned subsidiary of the Company, entered into an uncommitted short term credit facility of £8,000,000 (“Uncommitted Credit Facility”) with Citibank N.A., London Branch (“Citibank London”) pursuant to certain terms and conditions. Obligations under the Uncommitted Credit Facility are guaranteed by the Company and will be used for working capital and general corporate purposes and have a maturity date of April 13, 2022, at which time Wayside UK must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any interest, fees, costs and expenses, if any.

Interest on the unpaid principal balance of the Uncommitted Credit Facility will be calculated using a rate of 1.85 percentage points over the Daily Rate, as defined in the Uncommitted Credit Facility. Amounts borrowed under the Uncommitted Credit Facility will be guaranteed by the Company. The Uncommitted Credit Facility may be cancelled at any time by Citibank London. Citibank London has the sole discretion to accept or reject any requested utilization of the Uncommitted Credit Facilitation.

12. Earnings Per Share:

Our basic and diluted earnings per share are computed using the two-class method in accordance with ASC 260. The two-class method is an earnings allocation that determines net income per share for each class of common stock and participating securities according to their participation rights in dividends and undistributed earnings or losses. Non-vested restricted stock awards that include non-forfeitable rights to dividends are considered participating securities. Per share amounts are computed by dividing net income available to common shareholders by the weighted average shares outstanding during each period. Diluted and basic earnings per share are the same because the restricted shares are the only potentially dilutive security.

A reconciliation of the numerators and denominators of the basic and diluted per share computations follows:

	Three months ended	
	March 31,	
	2021	2020
Numerator:		
Net income	\$ 1,520	\$ 836
Less distributed and undistributed income allocated to participating securities	52	20
Net income attributable to common shareholders	1,468	816
Denominator:		
Weighted average common shares (Basic)	4,247	4,447
Weighted average common shares including assumed conversions (Diluted)	4,247	4,447
Basic net income per share	\$ 0.35	\$ 0.18
Diluted net income per share	\$ 0.35	\$ 0.18

13. **Major Customers and Vendors:**

The Company had two major vendors that accounted for 24% and 9%, respectively, of total purchases during the three months ended March 31, 2021 and 22% and 14%, respectively, of total purchases during the three months ended March 31, 2020.

The Company had two major customers that accounted for 20% and 13%, respectively, of its net sales during the three months ended March 31, 2021 and 27% and 14%, respectively, of its net sales during the three months ended March 31, 2020. These same customers accounted for 18% and 10%, respectively, of total net accounts receivable as of March 31, 2021 and 19% and 9%, respectively, of total net accounts receivable as of December 31, 2020.

14. **Income Taxes:**

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company'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.

15. **Stockholders' Equity and Stock Based Compensation:**

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 the Company's common stock, par value \$0.01 per share ("Common Stock") initially available for award under the 2012 Plan was 600,000, which was increased to 1,000,000 shares by shareholder approval at the Company's 2018 Annual Meeting in June 2018. As of March 31, 2021, the number of shares of Common Stock available for future award grants to employees, officers and directors under the 2012 Plan is 331,974.

During the three months ended March 31, 2021, the Company granted a total of 52,190 shares of Restricted Stock to officers. These shares of Restricted Stock vest over time in sixteen equal quarterly installments.

During the three months ended March 31, 2020, the Company granted a total of 66,560 shares of Restricted Stock to officers. These shares of Restricted Stock vest over time in sixteen equal quarterly installments. During the three months ended March 31, 2020, a total of 2,750 shares of Restricted Stock were forfeited.

A summary of nonvested shares of Restricted Stock awards outstanding under the 2012 Plan as of March 31, 2021, and changes during the three months then ended is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested shares at January 1, 2021	122,792	\$ 13.37
Granted in 2021	52,190	20.26
Vested in 2021	(16,818)	15.17
Forfeited in 2021	—	—
Nonvested shares at March 31, 2021	<u>158,164</u>	<u>\$ 15.45</u>

As of March 31, 2021, there is approximately \$2.2 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.9 years.

During the three months ended March 31, 2021 and 2020, the Company recognized share-based compensation expense of \$0.3 million and \$0.2 million, respectively.

16. Segment Information:

The Company distributes software developed by others through resellers indirectly to customers worldwide. We also resell computer software and hardware developed by others and provide technical services directly to customers worldwide.

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 “Distribution” segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide. The “Solutions” segment is a cloud solutions provider and value-added reseller of software, hardware and services to customers worldwide.

As permitted by FASB ASC Topic 280, the Company has utilized the aggregation criteria in combining its operations in Canada, Europe and the United Kingdom with the domestic segments as the international operations provide the same products and services to similar clients and are considered together when the Company’s CODM decides how to allocate resources.

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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, vendor prepayments 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,	
	2021	2020
Revenue:		
Distribution	\$ 54,820	\$ 57,264
Solutions	7,993	5,354
	<u>62,813</u>	<u>62,618</u>
Gross Profit:		
Distribution	\$ 7,874	\$ 7,162
Solutions	2,969	1,002
	<u>10,843</u>	<u>8,164</u>
Direct Costs:		
Distribution	\$ 3,913	\$ 2,637
Solutions	1,408	462
	<u>5,321</u>	<u>3,099</u>
Segment Income Before Taxes: (1)		
Distribution	\$ 3,961	\$ 4,525
Solutions	1,561	540
Segment Income Before Taxes	<u>5,522</u>	<u>5,065</u>
General and administrative	\$ 3,091	\$ 2,305
Legal and financial advisory expenses, net - unsolicited bid and related matters	—	1,323
Acquisition related costs	—	403
Amortization and depreciation expense	399	96
Interest, net	10	62
Foreign currency transaction (loss) gain	(91)	115
Income before taxes	<u>\$ 1,951</u>	<u>\$ 1,115</u>

(1) Excludes general corporate expenses including interest and foreign currency transaction (loss) gain.

Selected Assets by Segment:	As of March 31,	As of December 31,
	2021	2020
Distribution	\$ 109,402	\$ 100,841
Solutions	5,697	7,304
Segment Select Assets	<u>115,099</u>	<u>108,145</u>
Goodwill and Intangible Assets	20,379	19,592
Corporate Assets	42,232	37,796
Total Assets	<u>\$ 177,710</u>	<u>\$ 165,533</u>

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Geographic areas and net sales mix related to operations for the three months ended March 31, 2021 and 2020 were as follows. Revenue is allocated to a geographic area based on the location of the sale, which is generally the customer's country of domicile.

	Three months ended		
	March 31, 2021		
	Distribution	Solutions	Total
Geography			
USA	\$ 41,084	\$ 4,979	\$ 46,063
Europe and United Kingdom	7,246	2,743	9,989
Canada	6,490	271	6,761
Total net sales	<u>\$ 54,820</u>	<u>\$ 7,993</u>	<u>\$ 62,813</u>
Timing of Revenue Recognition			
Transferred at a point in time where the Company is principal (1)	\$ 49,357	\$ 6,150	\$ 55,507
Transferred at a point in time where the Company is agent (2)	5,463	1,843	7,306
Total net sales	<u>\$ 54,820</u>	<u>\$ 7,993</u>	<u>\$ 62,813</u>
	Three months ended		
	March 31, 2020		
	Distribution	Solutions	Total
Geography			
USA	\$ 53,104	\$ 4,797	\$ 57,901
Europe and United Kingdom	1,776	—	1,776
Canada	2,384	557	2,941
Total net sales	<u>\$ 57,264</u>	<u>\$ 5,354</u>	<u>\$ 62,618</u>
Timing of Revenue Recognition			
Transferred at a point in time where the Company is principal (1)	\$ 52,493	\$ 5,089	\$ 57,582
Transferred at a point in time where the Company is agent (2)	4,771	265	5,036
Total net sales	<u>\$ 57,264</u>	<u>\$ 5,354</u>	<u>\$ 62,618</u>

(1) Includes net sales from third-party hardware and software products.

(2) Includes net sales from third-party maintenance, software support and services.

Geographic identifiable assets related to operations as of March 31, 2021 and December 31, 2020 were as follows.

Identifiable Assets by Geographic Areas	March 31,	December 31,
	2021	2020
USA	\$ 108,954	\$ 114,126
Canada	24,691	18,514
Europe and United Kingdom	23,686	13,301
Unallocated	20,379	19,592
Total	<u>\$ 177,710</u>	<u>\$ 165,533</u>

17. Related Party Transactions:

The Company made sales to a customer where a member of our Board of Directors is an executive. During the three months ended March 31, 2021 and 2020, net sales to this customer totaled approximately \$0.2 million and \$0.1 million, respectively. Amounts due from this customer as of March 31, 2021 and December 31, 2020 were approximately \$0.1 million, respectively, which were settled in cash subsequent to each period end.

18. Unsolicited Bid and Shareholder Demand:

On April 16, 2020 (the “Effective Date”), the Company entered into a Settlement Agreement (the “Settlement Agreement”) with Simon Nynens, Shepherd Kaplan Krochuk, LLC, North & Webster SSG, LLC, and each of Dennis Crowley, David Shepherd, David Kaplan, Timothy Krochuk and Samuel Kidston relating to an unsolicited bid and shareholder demand. Pursuant to the Settlement Agreement, the Company agreed to purchase all of Mr. Nynens’ 261,631 shares of the Common Stock owned, of record or beneficially, as of the Effective Date, at fair market value, as defined in the agreement.

On April 23, 2020, the Company purchased all of Nynens’ 261,631 shares of Common Stock at \$13.19 per share pursuant to the Settlement Agreement, representing approximately 5.8% of the issued and outstanding Common Stock of the Company, for an aggregate purchase price of \$3.5 million.

The Company incurred zero and \$1.3 million in legal and advisory expenses, net during the three months ended March 31, 2021 and 2020, respectively, related to the above matter.

19. Risks and Uncertainties Related to the COVID-19 Pandemic:

In March 2020, the World Health Organization declared the novel coronavirus, COVID-19, a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. While the Company offers a full suite of solutions and services that address customer priorities across the technology landscape, it is not possible for the Company to predict the duration or magnitude of adverse results of the outbreak and its effects on the Company’s business, liquidity or results of operations at this time. As a result, many of the estimates and assumptions used in preparation of these interim financial statements required increased judgment and carry a higher degree of variability and volatility. As events continue to evolve with respect to the pandemic, the Company’s estimates may materially change in future periods.

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 “Forward Looking Statements” 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, 2020, filed with the Securities and Exchange Commission on March 16, 2021. 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 2020 Annual Report on Form 10-K.

Overview

Wayside Technology Group, Inc. (the “Company,” “we,” “our,” or “us”) is a value added IT distribution and solutions company, primarily selling software and other third-party IT products and services through two reportable operating segments. Through our “Distribution” segment we sell products and services to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide, who in turn sell these products to end users. Through our “Solutions” segment we act as a cloud solutions provider and value-added reseller, selling computer software and hardware developed by others and provide technical services directly to end user customers worldwide. We offer an extensive line of products from leading software vendors 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 creative marketing communications, including our web sites, local and on-line seminars, webinars, social media, direct e-mail, and printed materials.

We have subsidiaries in the United States, Canada, Netherlands, United Kingdom and Ireland, through which sales are made.

COVID-19

We are closely monitoring the impact of the 2019 novel coronavirus, or COVID-19, pandemic on all aspects of our business. COVID-19 has resulted and will continue to result in significant economic disruption, which could also impact our business.

In the first quarter of 2020, we took a number of precautionary measures designed to help minimize the risk of the spread of the virus to our employees, including temporarily closing our offices and requiring all employees to work remotely. The majority of our employees continue to work remotely through the second quarter of 2021.

While we did not incur significant disruptions to our operations during the three months ended March 31, 2021 as a result of the COVID-19 pandemic, we are unable to predict the impact that the COVID-19 pandemic will have on our business, liquidity or results of operations at this time.

This situation is changing rapidly, and additional impacts may arise that we are not aware of currently. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers and shareholders.

Factors Influencing Our Financial Results

We derive the majority of our net sales through the sale of third-party software licenses, maintenance and service agreements. In our Distribution segment, sales are impacted by the number of product lines we distribute, and sales penetration of those products into the reseller channel, product lifecycle competitive, and demand characteristics of the products which we are authorized to distribute. In our Solutions segment sales are generally driven by sales force effectiveness and success in providing superior customer service and cloud solutions support, competitive pricing, and flexible payment solutions to our customers. Our sales are also impacted by external factors such as levels of IT spending and customer demand for products we distribute.

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We sell in a competitive environment where gross product margins have historically declined due to competition and changes in product mix towards products where no delivery of a physical product is required. In addition, we grant discounts, allowances, and rebates to certain customers, which may vary from period to period, based on volume, payment terms and other criteria. To date, we have been able to implement cost efficiencies such as the use of drop shipments, electronic ordering (“EDI”) and other capabilities to be able to operate our business profitably as gross margins have declined. We evaluate the profitability of our business based on return on equity and effective margin (see management’s discussion and analysis below).

Gross profit is calculated as net sales less cost of sales. We record customer rebates and discounts as a component of net sales and record vendor rebates and discounts as a component of cost of sales.

Selling, general and administrative expenses are comprised mainly of employee salaries, commissions and other employee related expenses, facility costs, costs to maintain our IT infrastructure, public company compliance costs and professional fees. We monitor our level of accounts payable, inventory turnover and accounts receivable turnover which are measures of how efficiently we utilize capital in our business.

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, industry shipments of new software products or upgrades, 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.

Dividend Policy and Share Repurchase Program. Historically we have sought to return value to investors through the payment of quarterly dividends and share repurchases. Total dividends paid and shares repurchased were \$0.8 million and less than \$0.1 million during each of the three months ended March 31, 2021 and 2020, respectively. The payment of future dividends and share repurchases is at the discretion of our Board of Directors and dependent on results of operations, projected capital requirements and other factors the Board of Directors may find relevant.

Stock Volatility. The technology, distribution and services sectors of the United States stock markets is subject to substantial volatility. Numerous conditions which impact these sectors 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, par value \$0.01 per share (“Common Stock”). Furthermore, the potential adverse effect of the current pandemic of COVID-19, fluctuations in the Company’s operating results, announcements regarding litigation, the loss of a significant vendor or customer, increased competition, reduced vendor incentives and trade credit, higher operating expenses, and other developments, could have a significant impact on the market price of our Common Stock.

Forward Looking Statements

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,” “plan,” “expect,” “intend,” “anticipate,” “believe,” “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 have been correct. Because these forward-looking statements are subject to risks and uncertainties, actual results could differ materially from those indicated by such forward-looking statements. These risks and uncertainties include, but are not limited to, the continued acceptance of the Company’s distribution channel by vendors and customers, the timely availability and acceptance of new products, 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. Currently, one of the most significant factors is the potential adverse effect of the current COVID-19 pandemic on the Company, the global economy and financial markets. The extent to which COVID-19 impacts the Company will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects

of the pandemic and containment measures, including the impact on our reseller partners and the end customer markets they serve, among others. 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, 2020 filed with the Securities and Exchange Commission on March 16, 2021.

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.

Financial Overview

Net sales increased 1%, or \$0.2 million, to \$62.8 million for the three months ended March 31, 2021 compared to \$62.6 million for the same period in the prior year. Gross profit increased 33%, or \$2.6 million, to \$10.8 million for the three months ended March 31, 2021 compared to \$8.2 million for the same period in the prior year. Selling, general and administrative ("SG&A") expenses increased 56%, or \$3.0 million, to \$8.4 million for the three months ended March 31, 2021 compared to \$5.4 million for the same period in the prior year. Amortization and depreciation expense increased 316%, or \$0.3 million, to \$0.4 million for the three months ended March 31, 2021 compared to \$0.1 million for the same period in the prior year. Net income for the three months ended March 31, 2021 was \$1.5 million compared to \$0.8 million for the same period in the prior year. Diluted income per share for the three months ended March 31, 2021 was \$0.35 compared to \$0.18 for the same period in the prior year.

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 US 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.

On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, 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 consolidated financial statements affect its more significant judgments and estimates.

Revenue

The Company utilizes judgment regarding performance obligations inherent in the products for services it sells including, whether ongoing maintenance obligations performed by third party vendors are distinct from the related software licenses, and allocation of sales prices among distinct performance obligations. These estimates require significant judgment to determine whether the software's functionality is dependent on ongoing maintenance or if substantially all functionality is available in the original software download. We also use judgment in the allocation of sales proceeds among performance obligations, utilizing observable data such as stand-alone selling prices, or market pricing for similar products and services.

Allowance for Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management determines the estimate of the allowance for uncollectible accounts receivable by considering a number of factors, including historical experience, aging of the accounts receivable, and specific information obtained by the Company on the financial condition and the current creditworthiness of its customers. 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. At the time of sale, we record an estimate for sales returns based on historical experience. If actual sales returns are greater than estimated by management, additional expense may be incurred.

Accounts Receivable – Long Term

The Company's accounts receivable long-term are discounted to their present value at prevailing market rates at the time of sale. In doing so, the Company considers competitive market rates and other relevant factors.

Inventory Allowances

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.

Business Combinations

The Company accounts for business combinations using the acquisition method of accounting, which allocates the fair value of the purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions. The Company may utilize third-party valuation specialists to assist the Company in the allocation. Initial purchase price allocations are subject to revision within the measurement period, not to exceed one year from the date of acquisition. Acquisition-related expenses and transaction costs associated with business combinations are expensed as incurred.

Goodwill

We test goodwill for impairment on an annual basis, and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

In a qualitative assessment, we assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then the quantitative goodwill impairment test is unnecessary.

If, after assessing the totality of events or circumstances, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform the quantitative goodwill impairment test. We may also elect the unconditional option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test.

In the quantitative impairment test, we compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. Conversely, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

Intangible Assets

Intangible assets with determinable lives are amortized on a straight-line basis over their respective estimated useful lives, which is determined based on their expected period of benefit. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment loss is recorded for the excess of the asset's carrying amount over its fair value. In addition, each quarter, the Company evaluates whether events and circumstances warrant a revision to the remaining estimated useful life of each of these intangible assets. If the Company were to determine that a change to the remaining estimated useful life of an intangible asset was necessary, then the remaining carrying amount of the intangible asset would be amortized prospectively over that revised remaining useful life.

Income Taxes

The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance related to deferred tax assets. In the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made.

Share-Based Payments

Under the fair value recognition provision, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period. We record the impact of forfeitures when they occur. 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.

Foreign Exchange

The Company's foreign currency exposure relates primarily to international transactions where the currency collected from customers can be different from the currency used to purchase the product. In cases where the Company is not able to create a natural hedge by maintaining offsetting asset and liability amounts in the same currency, it may enter into foreign exchange contracts, typically in the form of forward purchase agreements, to facilitate the hedging of foreign currency exposures to mitigate the impact of changes in foreign currency exchange rates. These contracts generally have terms of no more than two months. The Company does not apply hedge accounting to these contracts and therefore the changes in fair value are recorded in earnings. The Company does not enter into foreign exchange contracts for trading purposes and the risk of loss on a foreign exchange contract is the risk of nonperformance by the counterparties, which the Company minimizes by limiting its counterparties to major financial institutions. The fair value of forward purchase contracts at March 31, 2021 was not material to the consolidated financial statements.

Interest, Net

Interest, net consists primarily of income from the amortization of the discount on accounts receivable long term, net of interest expense on the Company's credit facility.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326)*" ("ASU 2016-13"). ASU 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. Originally, ASU 2016-13 was effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. In November 2019, FASB issued ASU 2019-10, "*Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*." This ASU defers the effective date of ASU 2016-13 for public companies that are considered smaller reporting companies as defined by the SEC to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is planning to adopt this standard in the first quarter of fiscal 2023. The Company is

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currently evaluating the potential effects of adopting the provisions of ASU No. 2016-13 on its Consolidated Financial Statements, particularly its recognition of allowances for accounts receivable.

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,	
	2021	2020
Net sales	100.0 %	100.0 %
Cost of sales	82.7	87.0
Gross profit	17.3	13.0
Selling, general and administrative expenses	13.4	8.6
Legal and financial advisory expenses, net - unsolicited bid and related matters	—	2.1
Acquisition related costs	—	0.6
Amortization and depreciation expense	0.6	0.2
Income from operations	3.2	1.5
Other (expense) income	(0.1)	0.3
Income before income taxes	3.1	1.8
Income tax provision	0.7	0.4
Net income	2.4 %	1.3 %

Key Operating Metrics

Our management monitors several financial and non-financial measures and ratios on a regular basis in order to track the progress of our business. We believe that the most important of these measures and ratios include net sales, adjusted gross billings, gross profit, adjusted EBITDA, gross profit as a percentage of adjusted gross billings and adjusted EBITDA as a percentage of gross profit. We use a variety of operating and other information to evaluate the operating performance of our business, develop financial forecasts, make strategic decisions, and prepare and approve annual budgets. These key indicators include financial information that is prepared in accordance with US GAAP and presented in our Consolidated Financial Statements as well as non-US GAAP performance measurement tools.

	Three months ended	
	March 31,	March 31,
	2021	2020
Net sales	\$ 62,813	\$ 62,618
Adjusted gross billings (Non-GAAP)	\$ 210,861	\$ 173,099
Gross profit	\$ 10,843	\$ 8,164
Gross profit - Distribution	\$ 7,874	\$ 7,162
Gross profit - Solutions	\$ 2,969	\$ 1,002
Adjusted EBITDA (Non-GAAP)	\$ 2,647	\$ 3,121
Gross margin % - Adjusted gross billings (Non-GAAP)	5.1%	4.7%
Effective margin % - Adjusted EBITDA (Non-GAAP)	24.4%	38.2%

We consider gross profit growth and effective margin to be key metrics in evaluating our business. During the three months ended March 31, 2021, gross profit increased 33%, or \$2.6 million, to \$10.8 million compared to \$8.2 million for the same period in the prior year while effective margin decreased to 24.4% compared to 38.2% for the same period in the prior year.

Reconciliations of Non-GAAP Financial Measures

	Three months ended	
	March 31,	March 31,
	2021	2020
Reconciliation of net sales to adjusted gross billings (Non-GAAP):		
Net sales	\$ 62,813	\$ 62,618
Costs of sales related to sales where the Company is an agent	148,048	110,481
Adjusted gross billings	<u>\$ 210,861</u>	<u>\$ 173,099</u>

We define adjusted gross billings as net sales in accordance with US GAAP, adjusted for the cost of sales related to sales where the Company is an agent. We provided a reconciliation of adjusted gross billings to net sales, which is the most directly comparable US GAAP measure. We use adjusted gross billings of product and services as a supplemental measure of our performance to gain insight into the volume of business generated by our business, and to analyze the changes to our accounts receivable and accounts payable. Our use of adjusted gross billings of product and services as analytical tools has limitations, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate adjusted gross billings of product and services or similarly titled measures differently, which may reduce their usefulness as comparative measures.

	Three months ended	
	March 31,	March 31,
	2021	2020
Net income reconciled to adjusted EBITDA:		
Net income	\$ 1,520	\$ 836
Provision for income taxes	431	279
Amortization and depreciation	399	96
Interest expense	18	17
EBITDA	<u>2,368</u>	<u>1,228</u>
Share-based compensation	279	167
Legal and financial advisory expenses, net - unsolicited bid and related matters	-	1,323
Acquisition related costs	-	403
Adjusted EBITDA	<u>\$ 2,647</u>	<u>\$ 3,121</u>

We define adjusted EBITDA, as net income, plus provision for income taxes, depreciation, amortization, share-based compensation, interest, legal and financial advisory expenses, net – unsolicited bid and related matters and acquisition related costs. We define effective margin as adjusted EBITDA as a percentage of gross profit. We provided a reconciliation of adjusted EBITDA to net income, which is the most directly comparable US GAAP measure. We use adjusted EBITDA as a supplemental measure of our performance to gain insight into our businesses profitability when compared to the prior year and our competitors. Adjusted EBITDA is also a component to our financial covenants in our credit facility. Our use of adjusted EBITDA has limitations, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate adjusted EBITDA, or similarly titled measures differently, which may reduce their usefulness as comparative measures.

Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020

Acquisitions

On April 30, 2020 we completed the acquisition of Interwork Technologies Inc. (“Interwork”) for a purchase price of \$3.6 million, subject to certain working capital adjustments, and a potential earnout of \$0.8 million payable approximately one year after the acquisition date. The operating results of Interwork are included in our operating results effective May 1, 2020.

On November 6, 2020 we completed the acquisition of CDF Group Limited (“CDF”) for a purchase price of \$17.4 million, subject to certain working capital adjustments. The operating results of CDF are included in our operating results effective November 7, 2020.

Operating results of Interwork are included in our Distribution segment. Operating results of CDF are included in either our Distribution segment or Solutions segment.

Net Sales and Adjusted Gross Billings

Net sales for the three months ended March 31, 2021 increased 1%, or \$0.2 million, to \$62.8 million compared to \$62.6 million for the same period in the prior year. Adjusted gross billings for the three months ended March 31, 2021 increased 22%, or \$37.8 million, to \$210.9 million compared to \$173.1 million for the same period in the prior year. Adjusted gross billings increased at a faster rate than net sales due to shift in product mix from hardware sales, which are recorded on a gross basis, to security, maintenance and cloud products which are recorded net of related cost of sales.

Distribution segment net sales for the three months ended March 31, 2021 decreased 4%, or \$2.5 million, to \$54.8 million compared to \$57.3 million for the same period in the prior year. The decrease in net sales was primarily due to lower hardware sales compared to the same quarter last year. The resulting shift in product mix to products recorded net of cost of sales resulted in a decline in net sales, despite increased adjusted gross billings. Adjusted gross billings for the Distribution segment for the three months ended March 31, 2021 increased 17%, or \$27.4 million, to \$193.3 million compared to \$165.9 million for the same period in the prior year primarily due to the impact of the acquisitions of Interwork and CDF.

Solutions segment net sales for the three months ended March 31, 2021 increased 49%, or \$2.6 million, to \$8.0 million compared to \$5.4 million for the same period in the prior year. The increase in net sales in our Solutions segment was primarily due to sales from the CDF acquisition for the three months ended March 31, 2021. Adjusted gross billings for the Solutions segment for the three months ended March 31, 2021 increased 142%, or \$10.3 million, to \$17.5 million compared to \$7.29 million for the same period in the prior year.

During the three months ended March 31, 2021, we relied on two key customers for a total of 33% of our net sales, with one of these customers accounting for 20% and the other customer accounting for 13% of our total net sales. The Company had two major customers that accounted for 27% and 14%, respectively, of its total net sales during the three months ended March 31, 2020. The Company had two major vendors that accounted for 24% and 19%, respectively, of total purchases during the three months ended March 31, 2021 and 22% and 14%, respectively, of total purchases during the three months ended March 31, 2020.

Gross Profit

Gross profit for the three months ended March 31, 2021 increased 33%, or \$2.6 million, to \$10.8 million compared to \$8.2 million for the same period in the prior year.

Distribution segment gross profit for the three months ended March 31, 2021 increased 10%, or \$0.7 million, to \$7.9 million compared to \$7.2 million for the same period in the prior year. The increase in Distribution segment gross profit resulted primarily from the impact of the acquisitions of Interwork and CDF, partially offset by higher early pay discounts and other rebates and discounts offered to our customers and lower vendor rebates. The increase in early pay discounts was impacted by a change in payment terms with one of our larger customers during the second quarter of 2020.

Solutions segment gross profit for the three months ended March 31, 2021 increased 196%, or \$2.0 million, to \$3.0 million compared to \$1.0 million for the same period in the prior year. The increase in Solutions segment gross profit resulted primarily from increased sales from the acquisition of CDF.

Customer rebates and discounts for the three months ended March 31, 2021 were \$2.1 million compared to \$1.1 million for the same period in the prior year. This increase is attributable to a change in payment terms with one of our larger customers during the second quarter of 2020, which resulted in a cash inflow of approximately \$30 million from the date the program was implemented, as well as increased rebates and discounts to national resellers. Customer rebates and discounts vary based on terms of rebate and early pay discount programs offered to customers and timing of payments ultimately received from our customers.

Vendor rebates and discounts for the three months ended March 31, 2021 were \$0.9 million compared to \$1.0 million for the same period in the prior year. Vendor rebates are dependent on programs offered by our vendors and in some cases reaching certain volume targets set by our vendors. The Company monitors vendor rebate levels, competitive pricing, and gross profit margins carefully. We anticipate that price competition in our market will continue in both of our business segments.

Selling, General and Administrative Expenses

SG&A expenses for the three months ended March 31, 2021 increased 56%, or \$3.0 million, to \$8.4 million compared to \$5.4 million for the same period in the prior year, primarily due to the impact of the acquisition of CDF and Interwork, as well as \$0.3 million of employee separation expenses. SG&A expenses were 13.4% of net sales for the three months ended March 31, 2021, compared to 8.6% for the same period in the prior year.

The Company expects that its SG&A expenses, as a percentage of net sales, may vary depending on changes in sales volume, as well as the levels of continuing investments in key growth initiatives. We plan to continue to expand our investment in business development, sales and marketing to maximize our market penetration.

Amortization and Depreciation Expense

Amortization and depreciation expense for the three months ended March 31, 2021 increased 316%, or \$0.3 million, to \$0.4 million compared to \$0.1 million for the same period in the prior year, primarily due to the amortization of intangible assets acquired in the Interwork and CDF acquisitions.

Legal and Financial Advisory Expenses, Net – Unsolicited Bid and Related Matters

There were no legal and financial advisory expenses, net – unsolicited bid and related matters incurred during the three months ended March 31, 2021 compared to \$1.3 million for the same period in the prior year.

Acquisition Related Costs

There were no acquisition related costs incurred during the three months ended March 31, 2021 compared to \$0.4 million for the same period in the prior year.

Income Taxes

For the three months ended March 31, 2021 and 2020, the Company recorded a provision for income taxes of \$0.4 million and \$0.3 million, respectively. The effective tax rate for the three months ended March 31, 2021 and 2020 was 22.1% and 25.0%, respectively. The change in the effective tax rate for the three months ended March 31, 2021 compared to the same period in the prior year is a result of changes in the mix of jurisdictions in which taxable income was earned.

Liquidity and Capital Resources

Our cash and cash equivalents increased to \$33.7 million as of March 31, 2021 compared to \$29.3 million as of December 31, 2020. The increase in cash and cash equivalents was primarily the result of \$8.2 million of cash and cash equivalents provided by operating activities, offset by \$3.1 million of cash used in investing activities and \$0.8 million of cash used for dividends.

Net cash and cash equivalents used in operating activities for the three months ended March 31, 2021 was \$8.2 million, comprised primarily of net income adjusted for non-cash items of \$2.4 million and changes in operating assets and liabilities of \$5.8 million.

Net cash and cash equivalents used in investing activities during the three months ended March 31, 2021 consisted of \$3.0 million of vendor advances and \$0.1 million of purchases of fixed assets.

Net cash and cash equivalents used in financing activities during the three months ended March 31, 2021 was \$0.8 million, primarily comprised of dividend payments on our Common Stock.

On November 15, 2017, the Company entered into a \$20,000,000 revolving credit facility (the “Credit Facility”) with Citibank, N.A. (“Citibank”) pursuant to a Second Amended and Restated Revolving Credit Loan Agreement (the “Loan Agreement”), Second Amended and Restated Revolving Credit Loan Note (the “Note”), Second Amended and Restated Security Agreement and Second Amended and Restated Pledge and Security Agreement. On August 31, 2020, the Company entered into an amendment to the Credit Facility (the “Amended Credit Facility”) pursuant to a First Amendment to Second Amended and Restated Revolving Credit Loan Agreement and Other Loan Documents (the “Amended Loan Agreement”) and First Allonge to Second Amended and Restated Revolving Credit Loan Note (the “Amended Note”). The Amended Credit Facility, which will continue to be used for working capital and general corporate purposes, matures on June 30, 2023, at which time the Company must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any, fees, costs and expenses. As of March 31, 2021, no borrowings were outstanding under the Credit Facility.

Subsequent to the quarter end, on April 13, 2021, Wayside Technology UK Holdings Limited (“Wayside UK”), a wholly-owned subsidiary of the Company, entered into an uncommitted short term credit facility of £8,000,000 (“Uncommitted Credit Facility”) with Citibank N.A., London Branch (“Citibank London”) pursuant to certain terms and conditions. Obligations under the Uncommitted Credit Facility are guaranteed by the Company and will be used for working capital and general corporate purposes and have a maturity date of April 13, 2022, at which time Wayside UK must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any interest, fees, costs and expenses, if any.

We anticipate that our working capital needs will increase as we invest in the growth of our business. We believe that the funds held in cash and cash equivalents and our unused borrowings under our Credit Facility will be sufficient to fund our working capital and cash requirements for the next 12 months.

Foreign Exchange

The Company’s foreign subsidiaries are 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, Euro Dollar and British Pound-to-U.S. Dollar exchange rate.

Off-Balance Sheet Arrangements

As of March 31, 2021, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Smaller reporting companies are not required to provide the information required by this item.

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 Chief Executive Officer (principal executive officer) and Vice President and Chief Financial Officer (principal financial and accounting 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.

As described above, on November 6, 2020 we completed the acquisition of CDF. SEC guidance permits management to omit an assessment of an acquired business’ internal control over financial reporting from management’s assessment of internal control over financial reporting for a period not to exceed one year from date of acquisition. We are in the process of integrating CDF’s operations within our internal control structure. In executing this integration, we are

analyzing, evaluating, and where necessary, making changes in controls and procedures related to the CDF business. Accordingly, management has excluded controls relating to CDF in this quarter’s evaluation of disclosure controls and procedures.

Changes in Internal Control Over Financial Reporting. Except for the acquisition of CDF described above, 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 three months ended March 31, 2021, 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 2021.

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	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (3) (4)
January 1, 2021 - January 31, 2021	—	\$ —	—	\$ —	547,288
February 1, 2021 - February 28, 2021	2,990 (1)	\$ 19.18	—	\$ —	547,288
March 1, 2021 - March 31, 2021	—	\$ —	—	\$ —	547,288
Total	<u>2,990</u>	<u>\$ 19.18</u>	<u>—</u>	<u>\$ —</u>	547,288

- (1) Includes 2,990 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 (3) 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) On December 3, 2014, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. On February 2, 2017, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. 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.
- (4) On December 14, 2020, the Board of Directors of the Company approved, and 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 December 14, 2020, and the Plan shall terminate upon the first to occur of (i) 100,000 shares of Common Stock under this Plan have been purchased, or (ii) the close of the Nasdaq Stock Market on July 30, 2021.

Item 3. – Defaults Upon Senior Securities

None.

Item 4. – Mine Safety Disclosures

None.

Item 5. – Other Information

None.

Item 6. Exhibits

(a) Exhibits

- 3.1 Form of Amended and Restated Certificate of Incorporation of the Company. (1)
- 3.1(a) [Certificate of Amendment of Restated Certificate of Incorporation of the Company.](#) (2)
- 3.2 [Amended and Restated Bylaws of Wayside Technology Group, Inc.](#) (3)
- 31.1 [Certification pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) of the Securities Exchange Act of 1934, of Dale Foster, 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 Michael Vesey, the Vice President and Chief Financial Officer \(principal financial and accounting officer\) 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 Dale Foster, 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 Michael Vesey, the Vice President and Chief Financial Officer \(principal financial and accounting officer\) 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, 2021, filed with the SEC on May 6, 2021, formatted in Inline XBRL (Extensible Business Reporting Language) includes: (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Income, (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.
- 104 Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

(1) Incorporated by reference to the exhibit of the same number to the Registrant's Registration Statement on Form S-1 or amendments thereto (File No. 333-92810) filed on May 30, 1995, July 7, 1995 and July 18, 1995

(2) Incorporated by reference to the exhibit of the same number to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 filed on November 3, 2006.

(3) Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on August 6, 2020.

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 6, 2021

Date

By: /s/ Dale Foster

Dale Foster, Chief Executive Officer (Principal Executive Officer)

May 6, 2021

Date

By: /s/ Michael Vesey

Michael Vesey, Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

CERTIFICATION

I, Dale Foster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Wayside Technology Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Dale Foster
Dale Foster
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Michael Vesey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Wayside Technology Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Michael Vesey

Michael Vesey
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Wayside Technology Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dale Foster, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dale Foster
Dale Foster
Chief Executive Officer
(Principal Executive Officer)
May 6, 2021

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Wayside Technology Group, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Vesey, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Vesey

Michael Vesey
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
May 6, 2021

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by Company and furnished to the Securities and Exchange Commission or its staff upon request.
