

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2019

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

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.

Check One:

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 4,505,693 outstanding shares of common stock, par value \$.01 per share ("Common Stock") as of November 5, 2019, not including 778,807 shares classified as treasury stock.

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

**Wayside Technology Group, Inc. and Subsidiaries**  
**Table of Contents**

	<b>Page</b>
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2019 (unaudited) and December 31, 2018</u>	3
<u>Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2019 and 2018 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2019 and 2018 (unaudited)</u>	5
<u>Condensed Consolidated Statement of Stockholders' Equity for the three and nine months ended September 30, 2019 and 2018 (unaudited)</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 (unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	31
<u>PART II OTHER INFORMATION</u>	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 6. Exhibits, Financial Statement Schedules</u>	32
<u>SIGNATURES</u>	33

**PART I — FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS**

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

	September 30, 2019 (Unaudited)	December 31, 2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,157	\$ 14,883
Accounts receivable, net of allowances of \$720 and \$785, respectively	86,436	81,351
Inventory, net	2,356	1,473
Vendor prepayments	187	3,172
Prepaid expenses and other current assets	2,224	1,988
Total current assets	101,360	102,867
Equipment and leasehold improvements, net	1,308	1,588
Right-of-use assets, net	1,881	—
Accounts receivable-long-term, net	2,040	3,156
Other assets	138	215
Deferred income taxes	98	145
	<u>\$ 106,825</u>	<u>\$ 107,971</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 60,361	\$ 66,653
Lease liability, current portion	397	—
Total current liabilities	60,758	66,653
Lease liability, net of current portion	2,250	—
Deferred rent and tenant allowances	—	745
Total liabilities	63,008	67,398
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value; 10,000,000 shares authorized; 5,284,500 shares issued: 4,507,215 and 4,496,494 shares outstanding, respectively	53	53
Additional paid-in capital	32,735	32,392
Treasury stock, at cost, 777,285 and 788,006 shares, respectively	(13,235)	(13,447)
Retained earnings	25,458	22,994
Accumulated other comprehensive loss	(1,194)	(1,419)
Total stockholders' equity	43,817	40,573
	<u>\$ 106,825</u>	<u>\$ 107,971</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)**

	Nine months ended September 30,		Three months ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 147,897	\$ 132,389	\$ 52,363	\$ 47,923
Cost of sales	125,789	112,693	45,308	41,620
Gross profit	22,108	19,696	7,055	6,303
Selling, general, and administrative expenses	16,075	15,248	5,087	4,903
Separation expenses	100	2,446	—	—
Income from operations	5,933	2,002	1,968	1,400
Other income:				
Interest, net	416	744	118	296
Foreign currency transaction gain (loss)	39	40	(52)	42
Income before provision for income taxes	6,388	2,786	2,034	1,738
Provision for income taxes	1,624	987	589	420
Net income	<u>\$ 4,764</u>	<u>\$ 1,799</u>	<u>\$ 1,445</u>	<u>\$ 1,318</u>
Income per common share-Basic	<u>\$ 1.06</u>	<u>\$ 0.40</u>	<u>\$ 0.32</u>	<u>\$ 0.29</u>
Income per common share-Diluted	<u>\$ 1.06</u>	<u>\$ 0.40</u>	<u>\$ 0.32</u>	<u>\$ 0.29</u>
Weighted average common shares outstanding — Basic	4,415	4,344	4,428	4,386
Weighted average common shares outstanding — Diluted	4,415	4,344	4,428	4,386
Dividends paid per common share	<u>\$ 0.51</u>	<u>\$ 0.51</u>	<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>Nine months ended</u> <u>September 30,</u>		<u>Three months ended</u> <u>September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 4,764	\$ 1,799	\$ 1,445	\$ 1,318
Other comprehensive income (loss):				
Foreign currency translation adjustments	<u>225</u>	<u>(269)</u>	<u>58</u>	<u>58</u>
Other comprehensive income (loss)	<u>225</u>	<u>(269)</u>	<u>58</u>	<u>58</u>
Comprehensive income	<u>\$ 4,989</u>	<u>\$ 1,530</u>	<u>\$ 1,503</u>	<u>\$ 1,376</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 Loss	Total
	Shares	Amount		Shares	Amount			
<b>Balance at January 1, 2019</b>	5,284,500	53	32,392	788,006	(13,447)	22,994	(1,419)	40,573
Net income	—	—	—	—	—	1,463	—	1,463
Translation adjustment	—	—	—	—	—	—	127	127
Dividends paid	—	—	—	—	—	(767)	—	(767)
Share-based compensation expense	—	—	165	—	—	—	—	165
Restricted stock grants (net of forfeitures)	—	—	(318)	(18,780)	318	—	—	—
Treasury shares repurchased	—	—	—	1,905	(20)	—	—	(20)
<b>Balance at April 1, 2019</b>	5,284,500	53	32,239	771,131	(13,149)	23,690	(1,292)	41,541
Net income	—	—	—	—	—	1,857	—	1,857
Translation adjustment	—	—	—	—	—	—	40	40
Dividends paid	—	—	—	—	—	(767)	—	(767)
Share-based compensation expense	—	—	169	—	—	—	—	169
Restricted stock grants (net of forfeitures)	—	—	59	3,500	(59)	—	—	—
Treasury shares repurchased	—	—	—	1,887	(24)	—	—	(24)
<b>Balance at July 1, 2019</b>	5,284,500	53	32,467	776,518	(13,232)	24,780	(1,252)	42,816
Net income	—	—	—	—	—	1,445	—	1,445
Translation adjustment	—	—	—	—	—	—	58	58
Dividends paid	—	—	—	—	—	(767)	—	(767)
Share-based compensation expense	—	—	287	—	—	—	—	287
Restricted stock grants (net of forfeitures)	—	—	(19)	(1,095)	19	—	—	—
Treasury shares repurchased	—	—	—	1,862	(22)	—	—	(22)
<b>Balance at September 30, 2019</b>	5,284,500	\$ 53	\$ 32,735	777,285	\$ (13,235)	\$ 25,458	\$ (1,194)	\$ 43,817

	Common Stock		Additional Paid-In Capital	Treasury		Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount		Shares	Amount			
<b>Balance at January 1, 2018</b>	5,284,500	53	31,257	829,671	(14,207)	22,522	(913)	38,712
Net income	—	—	—	—	—	1,597	—	1,597
Translation adjustment	—	—	—	—	—	—	(180)	(180)
Dividends paid	—	—	—	—	—	(764)	—	(764)
Share-based compensation expense	—	—	349	—	—	—	—	349
Restricted stock grants (net of forfeitures)	—	—	(706)	(60,500)	871	—	—	165
Treasury shares repurchased	—	—	—	9,126	(127)	—	—	(127)
<b>Balance at April 1, 2018</b>	5,284,500	53	30,900	778,297	(13,463)	23,355	(1,093)	39,752
Net loss	—	—	—	—	—	(1,117)	—	(1,117)
Translation adjustment	—	—	—	—	—	—	(147)	(147)
Dividends paid	—	—	—	—	—	(771)	—	(771)
Share-based compensation expense	—	—	2,038	—	—	—	—	2,038
Restricted stock grants (net of forfeitures)	—	—	(584)	(35,000)	584	—	—	—
Treasury shares repurchased	—	—	—	61,416	(866)	—	—	(866)
<b>Balance at July 1, 2018</b>	5,284,500	53	32,354	804,713	(13,745)	21,467	(1,240)	38,889
Net income	—	—	—	—	—	1,318	—	1,318
Translation adjustment	—	—	—	—	—	—	58	58
Dividends paid	—	—	—	—	—	(765)	—	(765)
Share-based compensation expense	—	—	231	—	—	—	—	231
Restricted stock grants (net of forfeitures)	—	—	(344)	(20,324)	344	—	—	—
Treasury shares repurchased	—	—	—	1,888	(25)	—	—	(25)
<b>Balance at September 30, 2018</b>	5,284,500	\$ 53	\$ 32,241	786,277	\$ (13,426)	\$ 22,020	\$ (1,182)	\$ 39,706

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

**Wayside Technology Group, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**(Amounts in thousands)**

	Nine months ended September 30,	
	2019	2018
<b>Cash flows from operating activities</b>		
Net income	\$ 4,764	\$ 1,799
Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization expense	380	358
Deferred income tax expense	47	7
Share-based compensation expense	620	2,618
Loss on disposal of fixed assets	—	22
Amortization of discount on accounts receivable	(389)	(734)
Amortization of right-of-use assets	282	—
Changes in operating assets and liabilities:		
Accounts receivable	(3,406)	(3,413)
Inventory	(881)	1,029
Prepaid expenses and other current assets	(231)	24
Vendor prepayments	2,984	2,867
Accounts payable and accrued expenses	(6,341)	163
Lease liability, net	(260)	—
Other assets and liabilities	67	(109)
Net cash and cash equivalents (used in) provided by operating activities	<u>(2,364)</u>	<u>4,631</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment and leasehold improvements	(92)	(243)
Net cash and cash equivalents used in investing activities	<u>(92)</u>	<u>(243)</u>
<b>Cash flows from financing activities</b>		
Purchase of treasury stock	(66)	(1,018)
Borrowings under revolving credit facility	—	10,000
Repayments of borrowings under revolving credit facility	—	(10,000)
Dividends paid	(2,301)	(2,301)
Net cash and cash equivalents used in financing activities	<u>(2,367)</u>	<u>(3,319)</u>
Effect of foreign exchange rate on cash and cash equivalents	<u>97</u>	<u>(135)</u>
Net (decrease) increase in cash and cash equivalents	(4,726)	934
Cash and cash equivalents at beginning of period	14,883	5,530
Cash and cash equivalents at end of period	<u>\$ 10,157</u>	<u>\$ 6,464</u>
<b>Supplementary disclosure of cash flow information:</b>		
Income taxes paid	<u>\$ 1,982</u>	<u>\$ 1,779</u>

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

**Wayside Technology Group, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**September 30, 2019**  
**(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, 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, 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, 2018.

**2. Recently Issued Accounting Standards:**

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance under FASB ASC Topic 840, Leases, resulting in the creation of FASB ASC Topic 842, Leases. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use ("ROU") asset representing its right to use the underlying asset for the lease term from operating leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors were originally required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, FASB issued ASU No. 2018-11, Targeted Improvements. This update still requires modified retrospective transition; however, it adds the option to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment in the current period instead of at the beginning of the earliest period presented. Under this option, comparative periods presented in the financial statements in which the new lease standard is adopted will continue to be presented in accordance with prior guidance.

The Company adopted the new accounting standard on January 1, 2019 using the modified retrospective transition option. The new standard provides optional practical expedients in transition, which the Company has elected as a package permitting the Company to not reassess under the new standard prior conclusions regarding lease identification, lease classification and initial direct costs. Also, in accordance with the new standard, the Company has elected in transition and for an ongoing basis not to apply the recognition requirements for all short-term leases.

The adoption of the new standard had a material effect on the Company's financial statements, with the most significant effects of adoption relating to (1) the recognition of new right-of-use assets and lease liabilities on its balance sheet for real estate operating leases; and (2) providing significant new disclosures about its leasing activities. Upon adoption, the Company recognized operating lease liabilities of approximately \$3.0 million based on the present value of the remaining minimum rental payments for existing operating leases. The Company also recognized corresponding ROU assets, net of lease incentives of approximately \$2.2 million. There was no impact to stockholders' equity from the adoption.



In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU No. 2016-13"). ASU No. 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU No. 2016-13 is effective for the Company in the first quarter of 2020, with early adoption permitted, and is to be applied using a modified retrospective approach. 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.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"), which permits the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act (the "TCJA" or "U.S. tax reform") from accumulated other comprehensive income (loss) to retained earnings. The new standard became effective for the Company beginning with the first quarter of 2019. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In June 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-07, "Compensation — Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"), which aligns the measurement and classification guidance for share-based payments to nonemployees with that for employees, with certain exceptions. It expands the scope of ASC 718 to include share-based payments granted to nonemployees in exchange for goods or services used or consumed in the entity's own operations and supersedes the guidance in ASC 505-50. The ASU retains the existing cost attribution guidance, which requires entities to recognize compensation cost for nonemployee awards in the same period and in the same manner (i.e., capitalize or expense) they would if they paid cash for the goods or services, but it moves the guidance to ASC 718. The new standard became effective for the Company beginning with the first quarter of 2019. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In July 2018, the FASB issued ASU 2018-09 – Codification Improvements ("ASU 2018-09"), which facilitates amendments to a variety of topics to clarify, correct errors in, or make minor improvements to the accounting standards codification. The effective date of the standard is dependent on the facts and circumstances of each amendment. Some amendments do not require transition guidance and will be effective upon the issuance of this standard. A majority of the amendments in ASU 2018-09 became effective for the Company beginning with the first quarter of 2019. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

**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 September 30, 2019 and 2018 were \$4.2 million and \$4.0 million, respectively. The net sales from our foreign operations for the nine months ended September 30, 2019 and 2018 were \$13.6 million and \$13.9 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 core principle of the revenue recognition criteria is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. This principle is achieved through applying the following five-step approach:

*Identification of the contract, or contracts, with a customer* — A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the

case of a new customer, published credit and financial information pertaining to the customer. The Company considers customer purchase orders, which in some cases are governed by master agreements or general terms and conditions of sale, to be contracts with customers. All revenue is generated from contracts with customers.

*Identification of the performance obligations in the contract*—Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, we apply judgment to determine whether promised goods or services are capable of being distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a single performance obligation.

*Determination of the transaction price*—The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer. Net sales are recorded net of estimated discounts, rebates, and returns. Vendor rebates are recorded when earned as a reduction to cost of sales or inventory, as applicable.

*Allocation of the transaction price to the performance obligations in the contract*— If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price, or SSP, basis. We determine SSP 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. Contracts with a significant financing component are discounted to their present value at contract inception and accreted up to the expected payment amounts. These contracts generally offer customers extended payment terms of up to three years.

*Recognition of revenue when, or as, we satisfy a performance obligation*— The Company recognizes revenue when its performance obligations are complete, and control of the specified goods or services pass to the customer. The Company considers the following indicators in determining when control passes to the customer: (i) the Company has a right to payment for the product or service, (ii) the customer has legal title to the product, (iii) the Company has transferred physical possession of the product, (iv) the Customer has the significant risk and rewards of ownership of the product, and (v) the customer has accepted the product. Substantially all our performance obligations are satisfied at a point in time, as our obligation is to deliver a product or fulfill an order for a third party to deliver ongoing services, maintenance or support.

#### **Disaggregation of Revenue**

We generate revenue from the re-sale of third-party software licenses, subscriptions, hardware, and related service contracts. Finance fees related to sales are classified as interest income. The following table depicts the disaggregation of revenue according to revenue type and is consistent with how we evaluate our financial performance:

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
<b>Net sales:</b>				
Hardware, software and other products	\$ 133,482	\$ 120,073	\$ 47,508	\$ 44,100
Software - security & highly interdependent with support	5,417	5,029	1,798	1,433
Maintenance, support & other services	8,998	7,287	3,057	2,390
Net sales	<u>\$ 147,897</u>	<u>\$ 132,389</u>	<u>\$ 52,363</u>	<u>\$ 47,923</u>

*Hardware, software and other products* -Hardware product consists of sales of hardware manufactured by third parties. Hardware product is delivered from our warehouse or drop shipped directly from the vendor. Revenue from our hardware products is recognized on a gross basis, with the selling price to the customer as net sales, and the cost of the related product as cost of sales, upon transfer of control to the customer, as the Company is acting as a principal in the transaction. Control is generally deemed to have passed to the customer upon transfer of title and risk of ownership.

Software product consists of sales of perpetual and term software licenses for products developed by third party vendors, which are distinct from related maintenance and support. Software licenses are delivered via electronic license keys provided by the vendor to the end user. Revenue from the sale of software products is recognized on a gross basis, with the selling price to the customer as net sales, and the cost of the related product as cost of sales, upon transfer of control to our customers as the Company is a principal in the transaction. Control 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. Other products include marketing revenues that are recorded on a gross basis as the Company is a principal in the arrangement.

Software maintenance and support, commonly known as software assurance or post contract support, consists of software updates and technical support provided by the software vendor to the licensor over a period. In cases where the software maintenance is distinct from the related software license, software maintenance is accounted for as a separate performance obligation. In cases where the software maintenance is not distinct from the related software license, it is accounted for as a single performance obligation with the related license. We utilize judgement in determining whether the maintenance is distinct from the software itself. This involves considering if the software provides its original intended functionality without the updates, or is dependent on frequent, or continuous updates to maintain its functionality. See *Allocation of the transaction price to the performance obligations in the contract* for a discussion of the allocation of maintenance and support costs when they are distinct from the related software licenses and *Software - security and highly interdependent with support* for a discussion of maintenance and support costs when they are not distinct from the related software license.

*Software - security and highly interdependent with support* - Software - security software and software highly interdependent with support consists of sales of security subscriptions and other licensed software products whose functionality is highly interdependent with, and therefore not distinct from, related software maintenance. Delivery of the software license and related support over time is considered a single performance obligation of the third-party vendor for these products. The Company is an agent in these transactions, with revenue being recorded on a net basis when its performance obligation of processing a valid order between the supplier and customer contracting for the services is complete.

*Maintenance, support and other services revenue* - Maintenance, support and other services revenue consists of third-party post-contract support that is not critical or essential to the core functionality of the related licensed software, and, to a lesser extent, from third-party professional services, software as a service, and cloud subscriptions. Revenue from maintenance, support and other service revenues is recognized on a net basis, upon fulfillment of an order to the customer, as the Company is an agent in the transaction, and its performance obligations are complete at the time a valid order between the parties is processed.

*Costs to obtain and fulfill a contract* - We pay 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.

*Contract balances* - Accounts receivable is recorded at the invoiced amount, net of an allowance for doubtful accounts. A receivable is recognized in the period we deliver goods or provide services or when our right to consideration is unconditional. Payment terms on invoiced amounts are typically 30-75 days. The balance of accounts receivable, net of allowance for doubtful accounts as of September 30, 2019 and December 31, 2018 is presented in the accompanying consolidated balance sheets. Accounts receivable-long-term result from product sales with extended payment terms that are discounted to their present values at the Company's estimates of prevailing market rates at the time of the sale. The Company has determined that these amounts do not represent variable consideration as the amount earned is fixed. 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 due under these long-term accounts receivable due within one year are reclassified to the current portion of accounts receivable and are shown net of reserves. As our revenues are generally recognized at a point in time in the same period as they are billed, we have no deferred revenue balances. Provisions for doubtful accounts including long-term accounts receivable and returns are estimated based on historical write offs, sales returns and credit memo analysis which are adjusted to actual on a periodic basis.

*Refund liability* - The Company records a refund liability for expected product returns with a corresponding asset for an amount representing any expected recovery from vendors regarding the return.

*Principal versus agent considerations* – The Company determines whether it is acting as a principal or agent in a transaction by assessing whether it controls a good or service prior to it being transferred to a customer, with control being defined as having the ability to direct the use of and obtain the benefits from the asset. The Company considers the following indicators, among others, in making the determination: 1) the Company is primarily responsible for fulfilling the promise to provide the promised good or service, 2) the Company has inventory risk, before or after the specified good or service has been transferred to the customer, and 3) the Company has discretion in establishing price for the specified good or service. Generally, we conclude that we are a principal in transactions where software or hardware products containing their core functionality are delivered to the customer at the time of sale and are agents in transactions where we are arranging for the provision of future performance obligations by a third party. As we enter into distribution agreements with third-party service providers, we evaluate whether we are acting as a principal or agent for each product sold under the agreement based on the nature of the product or service, and our performance obligations. Products for which there are significant ongoing third-party performance obligations include software maintenance, which includes periodic software updates and support, security software that is highly interdependent with maintenance, software as a service, cloud and third-party professional services. Sales of hardware, software and other products where we are a principal are recorded on a gross basis with the selling price to the customer recorded as sales and the cost of the product or software recorded as cost of sales. Sales where we are acting as an agent are recognized on a net basis at the date our performance obligations are complete. Under net revenue recognition, the cost paid to the vendor or third-party service provider is recorded as a reduction to sales, resulting in revenue being equal to the gross profit on the transaction.

#### 6. 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 3 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 Condensed Consolidated Balance Sheets and lease expense for these leases is recognized on a straight-line basis over the lease term.

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:

	<b>Nine months ended September 30, 2019</b>	
Cash paid for operating lease liabilities	\$	371
Right-of-use assets obtained in exchange for new operating lease obligations (1)	\$	2,163
Weighted-average remaining lease term		7.4 years
Weighted-average discount rate		3.4%

- (1) Represents operating leases existing on January 1, 2019 and recognized as part of the Company's adoption of ASU 2016-02. No new operating leases commenced during the nine months ended September 30, 2019.

Maturities of lease liabilities as of September 30, 2019 were as follows:

2019 (excluding the nine months ended September 30, 2019)	\$	88
2020		438
2021		405
2022		414
2023		463
Thereafter		1,573
		<u>3,381</u>
Less: imputed interest		(734)
Total lease liabilities	\$	<u>2,647</u>
Lease liabilities, current portion		397
Lease liabilities, net of current portion		2,250
Total lease liabilities	\$	<u>2,647</u>

7. **Fair Value:**

The carrying amounts of financial instruments, including cash and cash equivalents, short-term accounts receivable and accounts payable approximated fair value at September 30, 2019 and December 31, 2018 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.

8. **Balance Sheet Detail:**

Equipment and leasehold improvements consist of the following:

	September 30, 2019	December 31, 2018
Equipment	\$ 2,238	\$ 2,146
Leasehold improvements	1,334	1,332
	<u>3,572</u>	<u>3,478</u>
Less accumulated depreciation and amortization	(2,264)	(1,890)
	<u>\$ 1,308</u>	<u>\$ 1,588</u>

During the three months ended September 30, 2019 and 2018, the Company recorded depreciation and amortization expense of \$0.1 million, respectively. During the nine months ended September 30, 2019 and 2018, the Company recorded depreciation and amortization expense of \$0.4 million, respectively. Depreciation and amortization expense are included in selling, general and administrative expense.

In limited circumstances, the Company offers extended payment terms to customers for periods of 12 to 48 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:

	September 30, 2019	December 31, 2018
Total amount due from customer	\$ 7,079	\$ 11,169
Less: unamortized discount	(251)	(391)
Less: current portion included in accounts receivable	(4,788)	(7,622)
	<u>\$ 2,040</u>	<u>\$ 3,156</u>

The undiscounted cash flows to be received by the Company relating to these accounts receivable long-term will be \$5.0 million, \$1.9 million and \$0.2 million during the 12-month periods ending September 30, 2020, 2021 and 2022, respectively.

Accounts payable and accrued expenses consist of the following:

	September 30, 2019	December 31, 2018
Trade accounts payable	\$ 56,927	\$ 62,751
Accrued expenses	3,434	3,902
	<u>\$ 60,361</u>	<u>\$ 66,653</u>

9. **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 (the “Security Agreement”) and Second Amended and Restated Pledge and Security Agreement (the “Pledge Agreement”). The Credit Facility, which will be used for working capital and general corporate purposes, matures on August 31, 2020, 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 Credit Facility is subject to change from time to time based on the changes in the LIBOR Rate, as defined in the Loan Agreement (the “Index”). The Index was 3.32% at September 30, 2019. Interest on the unpaid principal balance of the Note will be calculated using a rate of 1.50 percentage points over the Index. If the Index becomes unavailable during the term of the Credit Facility, interest will be based upon the Prime Rate (as defined in the Loan Agreement) after notifying the Company. The Credit Facility is secured by the assets of the Company.

Among other affirmative covenants set forth in the Loan Agreement, the Company must maintain (i) a 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 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 September 30, 2019 and December 31, 2018.

At September 30, 2019 and December 31, 2018, the Company had no borrowings outstanding under the Credit Facility.

10. **Earnings Per Share:**

Our basic and diluted earnings per share are computed using the two-class method. 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:

	(Unaudited) Nine months ended September 30,		(Unaudited) Three months ended September 30,	
	2019	2018	2019	2018
<b>Numerator:</b>				
Net income	\$4,764	\$1,799	\$ 1,445	\$ 1,318
Less distributed and undistributed income allocated to participating securities	98	71	25	31
Net income attributable to common shareholders	4,666	1,728	1,420	1,287
<b>Denominator:</b>				
Weighted average common shares (Basic)	4,415	4,344	4,428	4,386
Weighted average common shares including assumed conversions (Diluted)	4,415	4,344	4,428	4,386
Basic net income per share	\$ 1.06	\$ 0.40	\$ 0.32	\$ 0.29
Diluted net income per share	\$ 1.06	\$ 0.40	\$ 0.32	\$ 0.29

**11. Major Customers and Vendors:**

The Company had two major vendors that accounted for 22% and 18%, respectively, of total purchases during the three months ended September 30, 2019 and 24% and 16%, respectively, of total purchases during the nine months ended September 30, 2019. The Company had two major vendors that accounted for 23% and 15%, respectively, of total purchases during the three months ended September 30, 2018 and 25% and 15%, respectively, of total purchases during the nine months ended September 30, 2018.

The Company had two major customers that accounted for 19% and 17%, respectively, of its net sales during the three months ended September 30, 2019 and 24% and 20%, respectively, of its net sales during the nine months ended September 30, 2019. These same customers accounted for 43% and 11%, respectively, of total net accounts receivable as of September 30, 2019 and 36% and 15%, respectively, of total net accounts receivable as of December 31, 2018. The Company had two major customers that accounted for 37% and 16%, respectively, of its total net sales during the three months ended September 30, 2018 and 28% and 17%, respectively, of its total net sales during the nine months ended September 30, 2018.

**12. 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. In prior years, the Company recorded an accrual of \$0.5 million, net of federal tax benefit, for potential liabilities for state income taxes in states which have enacted economic nexus statutes and in which the Company has not filed income tax returns. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

The effective tax rate for the three months ended September 30, 2019 and 2018 was 29.0% and 24.2%, respectively. The effective tax rate for the nine months ended September 30, 2019 and 2018 was 25.4% and 35.4%, respectively.

The Company's effective tax rate for the three and nine months ended September 30, 2019 was impacted by an increase in the provision for state income taxes for states which have enacted economic nexus statutes.

The Company's effective tax rate for the nine months ended September 30, 2018 was impacted by limitations on the deductibility of executive compensation resulting from Section 162(m) of the Internal Revenue Code, and adjustments to the accrual for state income taxes in states which have enacted economic nexus statutes. The Company recorded a \$0.4 million tax benefit related to separation expenses during the nine months ended September 30, 2018 which were accounted for as a discrete item, resulting in an 18% effective tax benefit rate on that item. The Company also recorded an adjustment to its accrual for potential liabilities for state income taxes in states which have enacted economic nexus statutes of \$0.2 million during the nine months ended September 30, 2018. The effective tax rate for ordinary income was 24.2% for the nine months ended September 30, 2018.

### 13. 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 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 September 30, 2019, the number of shares of Common Stock available for future award grants to employees, officers and directors under the 2012 Plan is 513,647.

During the nine months ended September 30, 2018, the Company granted a total of 123,000 shares of Restricted Stock to officers, employees and directors. These shares of Restricted Stock vest between one and twenty equal quarterly installments.

During the nine months ended September 30, 2019, the Company granted a total of 32,905 shares of Restricted Stock to officers, employees and directors. These shares of Restricted Stock vest between one and sixteen equal quarterly installments. During the nine months ended September 30, 2019, a total of 16,530 shares of Restricted Stock were forfeited.

A summary of nonvested shares of Restricted Stock awards outstanding under the 2012 Plan as of September 30, 2019, and changes during the nine months then ended is as follows:

		Weighted Average Grant Date
	Shares	Fair Value
Nonvested shares at January 1, 2019	96,744	\$ 15.67
Granted in 2019	32,905	11.97
Vested in 2019	(41,293)	14.33
Forfeited in 2019	(16,530)	14.52
Nonvested shares at September 30, 2019	<u>71,826</u>	<u>\$ 15.02</u>

As of September 30, 2019, there is approximately \$1.2 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 2.4 years.

During the three months ended September 30, 2019 and 2018, the Company recognized share-based compensation cost of \$0.3 million and \$0.2 million, respectively. During the nine months ended September 30, 2019 and 2018, the Company recognized share-based compensation cost of \$0.6 million and \$2.6 million, respectively.

During the nine months ended September 30, 2018, \$1.7 million of stock compensation expense related to accelerated vesting of shares upon the resignation of the Company's former Chief Executive Officer, was included in separation expense. All other share-based compensation is included in selling, general and administrative expenses.

### 14. Segment Information:

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 President of our "Lifeboat Distribution" segment.

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

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

Segment income is based on segment revenue less the respective segment's cost of revenues as well as segment direct costs (including such items as payroll costs and payroll related costs, such as profit sharing, incentive awards and insurance) and excluding general and administrative expenses not attributed to an individual segment business unit. The Company only identifies accounts receivable, 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:

	(Unaudited)		(Unaudited)	
	Nine months ended September 30,		Three months ended September 30,	
	2019	2018	2019	2018
<b>Revenue:</b>				
Lifeboat Distribution	\$ 136,189	\$ 119,308	\$ 48,815	\$ 44,145
TechXtend	11,708	13,081	3,548	3,778
	<u>147,897</u>	<u>132,389</u>	<u>52,363</u>	<u>47,923</u>
<b>Gross Profit:</b>				
Lifeboat Distribution	\$ 19,708	\$ 17,099	\$ 6,386	\$ 5,639
TechXtend	2,400	2,597	669	664
	<u>22,108</u>	<u>19,696</u>	<u>7,055</u>	<u>6,303</u>
<b>Direct Costs:</b>				
Lifeboat Distribution	\$ 7,520	\$ 6,517	\$ 2,481	\$ 2,295
TechXtend	1,124	1,257	316	362
	<u>8,644</u>	<u>7,774</u>	<u>2,797</u>	<u>2,657</u>
<b>Segment Income Before Taxes: (1)</b>				
Lifeboat Distribution	\$ 12,188	\$ 10,582	\$ 3,905	\$ 3,344
TechXtend	1,276	1,340	353	302
<b>Segment Income Before Taxes</b>	<u>13,464</u>	<u>11,922</u>	<u>4,258</u>	<u>3,646</u>
General and administrative	\$ 7,431	\$ 7,474	\$ 2,290	\$ 2,246
Separation expenses	100	2,446	—	—
Interest, net	416	744	118	296
Foreign currency transaction gain (loss)	39	40	(52)	42
Income before taxes	<u>\$ 6,388</u>	<u>\$ 2,786</u>	<u>\$ 2,034</u>	<u>\$ 1,738</u>

(1) Excludes general corporate expenses including interest and foreign currency translation expenses.

<b>Selected Assets by Segment:</b>	<b>(Unaudited)</b> <b>As of</b> <b>September 30,</b> <b>2019</b>	<b>As of</b> <b>December 31,</b> <b>2018</b>
Lifeboat Distribution	\$ 85,431	\$ 77,610
TechXtend	5,588	11,542
<b>Segment Select Assets</b>	<b>91,019</b>	<b>89,152</b>
Corporate Assets	15,806	18,819
<b>Total Assets</b>	<b>\$ 106,825</b>	<b>\$ 107,971</b>

<b>Disaggregation of Revenue:</b>	<b>Nine months ended</b> <b>(Unaudited)</b>		<b>Three months ended</b> <b>(Unaudited)</b>	
	<b>September 30,</b> <b>2019</b>	<b>September 30,</b> <b>2018</b>	<b>September 30,</b> <b>2019</b>	<b>September 30,</b> <b>2018</b>

**Lifeboat Distribution**

Hardware, software and other products	\$ 122,967	\$ 108,213	\$ 44,308	\$ 40,617
Software - security & highly interdependent with support	5,162	4,607	1,670	1,358
Maintenance, support & other services	8,060	6,488	2,837	2,170
<b>Net Sales</b>	<b>\$ 136,189</b>	<b>\$ 119,308</b>	<b>\$ 48,815</b>	<b>\$ 44,145</b>

**TechXtend**

Hardware, software and other products	\$ 10,515	\$ 11,860	\$ 3,200	\$ 3,483
Software - security & highly interdependent with support	255	422	128	75
Maintenance, support & other services	938	799	220	220
<b>Net Sales</b>	<b>\$ 11,708</b>	<b>\$ 13,081</b>	<b>\$ 3,548</b>	<b>\$ 3,778</b>

15. **Separation Charges:**

On May 11, 2018, the Company entered into a Separation and Release Agreement (the "2018 Separation Agreement") with its former Chairman of the Board, President and Chief Executive Officer upon his resignation from the Company. The Separation Agreement supersedes and replaces the Employment Agreement, dated January 12, 2006, between the former Chairman of the Board, President and Chief Executive Officer and the Company.

The former Chairman of the Board, President and Chief Executive Officer was entitled to receive (a) a cash payment of \$0.7 million, payable in 12 consecutive, equal monthly installments on the fifteenth day of each month, commencing June 15, 2018; provided that the monthly payments were delayed until the earlier to occur of the former Chairman of the Board, President and Chief Executive Officer's death or November 19, 2018 (the "Delay Period"), and upon the expiration of the Delay Period, all payments that were delayed were paid in a lump sum, (b) a one-time, lump sum cash payment of \$0.03 million (the former Chairman of the Board, President and Chief Executive Officer's then current monthly salary) payable within 30 days after the separation date so long as the former Chairman of the Board, President and Chief Executive Officer performed certain transition services to the extent reasonably requested by the Company, which was paid; and (c) payment of accrued vacation equal to \$0.04 million; and all stock options and stock awards issued to the former Chairman of the Board, President and Chief Executive Officer, consisting solely of 109,084 shares of restricted Common Stock issued under the 2012 Plan, became fully vested and immediately exercisable and remain exercisable through their original terms.

There was no expense recorded during the three and nine months ended September 30, 2019, respectively, related to the 2018 Separation Agreement. The Company recorded separation expenses of zero and \$2.4 million during the three and nine months ended September 30, 2018 relating to the 2018 Separation Agreement, consisting of \$1.7 million for accelerated vesting of restricted stock grants and \$0.7 million for other cash payments made over the subsequent twelve months.

On May 24, 2019, the Company entered into a Separation and Release Agreement (“2019 Separation Agreement”) with its former President, Chief Executive Officer and member of the Board upon his resignation from the Company effective June 6, 2019. The 2019 Separation Agreement supersedes and replaces the Employment Agreement, dated October 5, 2018, between the former President, Chief Executive Officer and member of the Board and the Company. The former President, Chief Executive Officer and member of the Board is entitled to receive a one-time cash payment of \$0.1 million, payable in six equal monthly installments, the first four of which have been paid through September 30, 2019.

The Company recorded separation expenses of zero and \$0.1 million during the three and nine months ended September 30, 2019, respectively, relating to the 2019 Separation Agreement for the cash payments to be made over the subsequent six months. There was no expense recorded during the three and nine months ended September 30, 2018, respectively, related to the 2019 Separation Agreement.

## **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, 2018, filed with the Securities and Exchange Commission on March 18, 2019. 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 2018 Annual Report on Form 10-K.*

### **Overview**

Wayside Technology Group, Inc. (the "Company," "we," "our," or "us") distributes software and hardware developed by others through resellers indirectly to customers worldwide. We also resell computer software and hardware developed by others to customers in the United States and Canada. In addition, we operate a sales branch in Europe to serve our customers in this region of the world. We offer an extensive line of products from leading publishers of software and tools for virtualization/cloud computing, security, networking, storage and infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware. We market these products through creative marketing communications, including our web sites, local and on-line seminars, webinars, social media, direct e-mail, and printed materials.

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

### **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 Lifeboat distribution segment, sales are impacted by the number of product lines we distribute, and sales penetration of those products into the reseller channel. In our TechXtend segment sales are generally driven by sales force effectiveness and success in providing superior customer service, 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.

We sell in a competitive environment where gross product margins on adjusted gross billings have historically declined due to competition and changes in product mix towards products where no delivery of a physical product is required. 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.

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, level of extended payment terms sales transactions, 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 the three months ended September 30, 2019, respectively, and \$0.8 million and less than

\$0.1 million during the three months ended September 30, 2018, 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 sector of the United States stock markets is subject to substantial volatility. Numerous conditions which impact the technology sector or the stock market in general or the Company in particular, whether or not such events relate to or reflect upon the Company's operating performance, could adversely affect the market price of the Company's Common Stock. Furthermore, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor 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.

We adopted ASC 606 Revenue from Contracts with Customers on a retrospective basis effective January 1, 2018. Under ASC 606 net sales for certain maintenance, service and security products we sell are recorded net of the related cost of sales. We refer to these items as being recorded on a "net basis" in the discussion below. Software and hardware products for which sales and cost of sales are reported on separate line items are referred to as being recorded on a gross basis.

### **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," "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. Substantial risks and uncertainties unknown at this time could cause actual results to differ materially from those indicated by such forward-looking statements, including, but not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, product mix, market conditions, competitive pricing pressures, contribution of key vendor relationships and support programs, including vendor rebates and discounts, as well as factors that affect the software industry in general and other factors generally. We strongly urge current and prospective investors to carefully consider the cautionary statements and risk factors contained in this report and our annual report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission on March 18, 2019.

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 9%, or \$4.5 million, to \$52.4 million for the three months ended September 30, 2019 compared to \$47.9 million for the same period in the prior year. Gross profit increased 12%, or \$0.8 million, to \$7.1 million for the three months ended September 30, 2019 compared to \$6.3 million for the same period in the prior year. Selling, general and administrative ("SG&A") expenses increased 4%, or \$0.2 million, to \$5.1 million for the three months ended September 30, 2019, compared to \$4.9 million for the same period in the prior year. Net income for the three months ended September 30,

2019 was \$1.4 million compared to \$1.3 million for the same period in the prior year. Diluted income per share for the three months ended September 30, 2019 was \$0.32 compared to \$0.29 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 makes estimates regarding performance obligations inherent in the products and 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 judgement 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 judgement 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*

In limited circumstances, the Company offers extended payment terms to customers for periods of 12 to 48 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.

#### *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.

### *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.

### *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 February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance under FASB ASC Topic 840, Leases, resulting in the creation of FASB ASC Topic 842, Leases. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term from operating leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors were originally required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, FASB issued ASU No. 2018-11, Targeted Improvements. This update still requires modified retrospective transition; however, it adds the option to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment in the current period instead of at the beginning of the earliest period presented. Under this option, comparative periods presented in the financial statements in which the new lease standard is adopted will continue to be presented in accordance with prior guidance.

The Company adopted the new accounting standard on January 1, 2019 using the modified retrospective transition option. The new standard provides optional practical expedients in transition, which the Company has elected as a package permitting the Company to not reassess under the new standard prior conclusions regarding lease identification, lease classification and initial direct costs. Also, in accordance with the new standard, the Company has elected in transition and for an ongoing basis not to apply the recognition requirements for all short-term leases.

The adoption of the new standard had a material effect on the Company's financial statements, with the most significant effects of adoption relating to (1) the recognition of new right-of-use assets and lease liabilities on its balance sheet for real estate operating leases; and (2) providing significant new disclosures about its leasing activities. Upon adoption, the Company recognized operating lease liabilities of approximately \$3.0 million based on the present value of the remaining minimum rental payments for existing operating leases. The Company also recognized corresponding right-of-use assets, net of lease incentives of approximately \$2.2 million. There was no impact to stockholders' equity from the adoption.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU No. 2016-13"). ASU No. 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU No. 2016-13 is effective for the Company in the first quarter of 2020, with early adoption permitted, and is to be applied using a modified retrospective approach. 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.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"), which

permits the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act (the “TCJA” or “U.S. tax reform”) from accumulated other comprehensive income (loss) to retained earnings. The new standard became effective for the Company beginning with the first quarter of 2019. The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

In June 2018, the FASB issued Accounting Standards Update (“ASU”) No. 2018-07, “Compensation — Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting” (“ASU 2018-07”), which aligns the measurement and classification guidance for share-based payments to nonemployees with that for employees, with certain exceptions. It expands the scope of ASC 718 to include share-based payments granted to nonemployees in exchange for goods or services used or consumed in the entity’s own operations and supersedes the guidance in ASC 505-50. The ASU retains the existing cost attribution guidance, which requires entities to recognize compensation cost for nonemployee awards in the same period and in the same manner (i.e., capitalize or expense) they would if they paid cash for the goods or services, but it moves the guidance to ASC 718. The new standard became effective for the Company beginning with the first quarter of 2019. The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

In July 2018, the FASB issued ASU 2018-09 – Codification Improvements (“ASU 2018-09”), which facilitates amendments to a variety of topics to clarify, correct errors in, or make minor improvements to the accounting standards codification. The effective date of the standard is dependent on the facts and circumstances of each amendment. Some amendments do not require transition guidance and will be effective upon the issuance of this standard. A majority of the amendments in ASU 2018-09 became effective for the Company beginning with the first quarter of 2019. The adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

**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:

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	85.1	85.1	86.5	86.8
Gross profit	14.9	14.9	13.5	13.2
Selling, general and administrative expenses	10.9	11.5	9.7	10.2
Separation expenses	0.1	1.8	—	—
Income from operations	4.0	1.5	3.8	2.9
Other income	0.3	0.6	0.1	0.7
Income before income taxes	4.3	2.1	3.9	3.6
Income tax provision	1.1	0.7	1.1	0.9
Net income	3.2 %	1.4 %	2.8 %	2.8 %

**Non-GAAP Financial Measures**

Our management monitors a number of financial and non-financial measures and ratios on a regular basis in order to track the progress of our business. We believe that important measures and ratios include net sales, gross margin, adjusted gross billings, gross profit as a percentage of gross billings, net income as a percentage of net sales, net income as a percentage of gross billings, net income excluding separation expenses, net of taxes and diluted earnings per share excluding separation expenses, net of taxes. 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 U.S. GAAP and presented in our consolidated financial statements as well as non-GAAP performance measurement tools. When including non-GAAP performance measurements tools, we provide a reconciliation to the most directly comparable U.S. GAAP measure.



	Nine months ended		Three months ended	
	September 30,	September 30,	September 30,	September 30,
	2019	2018	2019	2018
Net sales	\$ 147,897	\$ 132,389	\$ 52,363	\$ 47,923
Adjusted gross billings (Non-GAAP)	\$ 433,519	\$ 375,615	\$ 149,058	\$ 133,977
Adjusted gross billings - Lifeboat Distribution (Non-GAAP)	\$ 414,300	\$ 343,010	\$ 143,165	\$ 121,972
Adjusted gross billings - TechXtend (Non-GAAP)	\$ 19,219	\$ 32,605	\$ 5,893	\$ 12,005
Gross profit	\$ 22,108	\$ 19,696	\$ 7,055	\$ 6,303
Gross profit - Lifeboat Distribution	\$ 19,708	\$ 17,099	\$ 6,386	\$ 5,639
Gross profit - TechXtend	\$ 2,400	\$ 2,597	\$ 669	\$ 664
Net income	\$ 4,764	\$ 1,799	\$ 1,445	\$ 1,318
Net income excluding Separation expense (Non-GAAP)	\$ 4,840	\$ 3,807	\$ 1,445	\$ 1,318
Gross margin % - Net sales	14.9%	14.9%	13.5%	13.2%
Gross margin % - Adjusted gross billings (Non-GAAP)	5.1%	5.2%	4.7%	4.7%
Net income - % of Net sales	3.2%	1.4%	2.8%	2.8%
Net income - % of Adjusted gross billings (Non-GAAP)	1.1%	0.5%	1.0%	1.0%
Net income excluding Separation expense % - Net sales (Non-GAAP)	3.3%	2.9%	2.8%	2.8%

We define adjusted gross billings as net sales in accordance with U.S. GAAP, adjusted for the cost of sales related to Software – security or highly interdependent with support and maintenance, support or other services. We provided a reconciliation of adjusted gross billings to net sales, which is the most directly comparable U.S. 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 it in isolation or as substitutes for analysis of our financial results as reported under U.S. 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.

Reconciliation of net sales to adjusted gross billings (Non-GAAP):	Nine months ended		Three months ended	
	September 30,	September 30,	September 30,	September 30,
	2019	2018	2019	2018
Net sales	\$ 147,897	\$ 132,389	\$ 52,363	\$ 47,923
Costs of sales related to Software – security and highly interdependent with support and maintenance, support or other services	285,622	243,226	96,695	86,054
Adjusted gross billings	\$ 433,519	\$ 375,615	\$ 149,058	\$ 133,977

Adjusted gross billings by segment (Non-GAAP):	Nine months ended		Three months ended	
	September 30,	September 30,	September 30,	September 30,
	2019	2018	2019	2018
<b>Lifeboat Distribution segment:</b>				
Net sales	\$ 136,189	\$ 119,308	\$ 48,815	\$ 44,145
Costs of sales related to Software – security and highly interdependent with support and maintenance, support and other services	278,111	223,702	94,350	77,827
Adjusted gross billings	\$ 414,300	\$ 343,010	\$ 143,165	\$ 121,972
<b>TechXtend segment:</b>				
Net sales	\$ 11,708	\$ 13,081	\$ 3,548	\$ 3,778
Costs of sales related to Software – security and highly interdependent with support and maintenance, support and other services	7,511	19,524	2,345	8,227
Adjusted gross billings	\$ 19,219	\$ 32,605	\$ 5,893	\$ 12,005

We use net income excluding separation expenses, net of taxes and diluted earnings per share excluding separation expenses, net of taxes as supplemental measures of our performance to gain insight into comparison of our businesses' profitability when compared to the prior year. We provided a reconciliation of net income excluding separation expenses, net of taxes to net income and diluted earnings per share excluding separation expenses, net of taxes to diluted earnings per share, which are the most directly comparable U.S. GAAP measures. Our use of net income excluding separation expenses, net of taxes and diluted earnings per share excluding separation expenses, net of taxes has limitations, and you should not consider it in isolation or as substitutes for analysis of our financial results as reported under U.S. GAAP. In addition, other companies, including companies in our industry, might calculate separation expenses, net of taxes, or similarly titled measures differently, which may reduce their usefulness as comparative measures.

Reconciliation of net income to net income excluding separation expenses, net of tax (Non-GAAP):	Nine months ended		Three months ended	
	September 30,	September 30,	September 30,	September 30,
	2019	2018	2019	2018
Net income	\$ 4,764	\$ 1,799	\$ 1,445	\$ 1,318
Separation expenses	100	2,446	-	-
Income tax benefits related to separation expenses	(24)	(438)	-	-
Net income excluding separation expenses, net of taxes	\$ 4,840	\$ 3,807	\$ 1,445	\$ 1,318

Diluted earnings per share reconciled to diluted earnings per share excluding separation expenses, net of taxes (Non-GAAP):	Nine months ended		Three months ended	
	September 30,	September 30,	September 30,	September 30,
	2019	2018	2019	2018
Diluted earnings per share	\$ 1.06	\$ 0.40	\$ 0.32	\$ 0.29
Separation expenses	0.01	0.55	-	-
Income tax benefit related to separation expenses	-	(0.10)	-	-
Diluted earnings per share excluding separation expenses, net of taxes	\$ 1.07	\$ 0.85	\$ 0.32	\$ 0.29

**Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

**Net Sales**

Net sales for the three months ended September 30, 2019 increased 9%, or \$4.5 million, to \$52.4 million compared to \$47.9 million for the same period in the prior year. Adjusted gross billings for the three months ended September 30, 2019 increased 11%, or \$15.1 million, to \$149.1 million compared to \$134.0 million for the same period in the prior year. Adjusted gross billings increased at a higher rate than net sales primarily due to a higher percentage of adjusted gross billings being comprised of Software – security and highly interdependent with support and maintenance, support and other services, which are recorded on a net basis.

Lifeboat Distribution segment net sales for the three months ended September 30, 2019 increased \$4.7 million, or 11%, to \$48.8 million compared to \$44.1 million for the same period in the prior year. The increase was due primarily to sales growth in several of our more significant product lines, as well as incremental sales from new product lines added during 2018 and the first quarter of 2019. Adjusted gross billings for the Lifeboat Distribution segment for the three months ended September 30, 2019 increased \$21.2 million, or 17%, to \$143.2 million compared to \$122.0 million for the same period in the prior year.

TechXtend segment net sales for the three months ended September 30, 2019 decreased \$0.2 million, or 6%, to \$3.6 million compared to \$3.8 million for the same period in the prior year. Sales in our TechXtend segment may vary significantly from quarter to quarter based on the timing of IT spending decisions by our larger customers and internal capital allocation decisions regarding capital we allocate to our extended payment program. Adjusted gross billings for the TechXtend segment for the three months ended September 30, 2019 decreased \$6.1 million, or 51%, to \$5.9 million compared to \$12.0 million for the same period in the prior year.

During the three months ended September 30, 2019, we relied on two key customers for a total of 36% of our net sales, with one of these customers accounting for 19% and the other customer accounting for 17% of our total net sales during the three months ended September 30, 2019. The Company had two major customers that accounted for 37% and 16%, respectively, of its total net sales during the three months ended September 30, 2018. The Company had two major vendors that accounted for 22% and 18%, respectively, of total purchases during the three months ended September 30, 2019 and 23% and 15%, respectively, of total purchases during the three months ended September 30, 2018.

**Gross Profit**

Gross profit for the three months ended September 30, 2019 increased 12%, or \$0.8 million, to \$7.1 million compared to \$6.3 million for the same period in the prior year. Lifeboat Distribution segment gross profit for the three months ended September 30, 2019 increased 13%, or \$0.8 million, to \$6.4 million compared to \$5.6 million for the same period in the prior year due to the sales growth from existing and new product lines discussed above. TechXtend segment gross profit for the three months ended September 30, 2019 remained consistent with the same period in the prior year at \$0.7 million.

Gross profit margin (gross profit as a percentage of net sales) for the three months ended September 30, 2019 was 13.5% compared to 13.2% for the same period in the prior year. The change in gross profit margin is significantly impacted by changes in the percentage mix of our products which are recorded net of the related cost of sales, and hardware and software product sales which are reported on a gross basis. During the three months ended September 30, 2019 approximately 9.3% of our net sales was attributable to security, maintenance and third-party service products which are recorded on a net basis, or an effective 100% gross profit margin, compared to 8.0% for the same period in the prior year. This shift in product mix had the effect of increasing gross profit as a percent of net sales by 120 basis points. This increase was partially offset by lower gross profit margin on software and hardware products recorded on a gross basis. Lifeboat Distribution segment gross profit margin for the three months ended September 30, 2019 was 13.1% compared to 12.8% for the same period in the prior year. TechXtend segment gross profit margin for the three months ended September 30, 2019 was 18.9% compared to 17.6% for the same period in the prior year.

**Selling, General and Administrative Expenses**

SG&A expenses for the three months ended September 30, 2019 increased \$0.2 million, or 4%, to \$5.1 million compared to \$4.9 million for the same period in the prior year due to increased salary and commission expense to support

the increased sales on existing and new product lines. SG&A expenses were 9.7% of net sales for the three months ended September 30, 2019, compared to 10.2% 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.

#### **Income Taxes**

For the three months ended September 30, 2019 and 2018, the Company recorded a provision for income taxes of \$0.6 million and \$0.4 million, respectively. The effective tax rate for the three months ended September 30, 2019 was 29.0% compared to 24.2% for the same period in the prior year. The Company's effective tax rate for the three months ended September 30, 2019 was impacted by an increase in the provision for state income taxes for states which have enacted economic nexus statutes. The effective tax rate for the nine months ended September 30, 2019 was 25.4%.

#### ***Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018***

#### **Net Sales**

Net sales for the nine months ended September 30, 2019 increased 12%, or \$15.5 million, to \$147.9 million, compared to \$132.4 million for the same period in the prior year. Adjusted gross billings for the nine months ended September 30, 2019 increased 15%, or \$57.9 million, to \$433.5 million compared to \$375.6 million for the same period in the prior year. Adjusted gross billings increased at a higher rate than net sales primarily due to a higher percentage of adjusted gross billings being comprised of Software – security and highly interdependent with support and maintenance, support and other services, which are recorded on a net basis.

Lifeboat Distribution segment net sales for the nine months ended September 30, 2019 increased \$16.9 million, or 14%, to \$136.2 million compared to \$119.3 million for the same period in the prior year. The increase was due primarily to sales growth in several of our more significant product lines, as well as incremental sales from new product lines added during 2018 and the first quarter of 2019. Adjusted gross billings for the Lifeboat Distribution segment for the nine months ended September 30, 2019 increased \$71.3 million, or 21%, to \$414.3 million compared to \$343.0 million for the same period in the prior year.

TechXtend segment net sales for the nine months ended September 30, 2019 decreased \$1.4 million, or 11%, to \$11.7 million compared to \$13.1 million for the same period in the prior year. Sales in our TechXtend segment may vary significantly from period to period based on the timing of IT spending decisions by our larger customers and internal capital allocation decisions regarding capital we allocate to our extended payment program. Adjusted gross billings for the TechXtend segment for the nine months ended September 30, 2019 decreased \$13.4 million, or 41%, to \$19.2 million compared to \$32.6 million for the same period in the prior year.

During the nine months ended September 30, 2019, we relied on two key customers for a total of 44% of our net sales, with one of these customers accounting for 24% and the other customer accounting for 20% of our total net sales during the nine months ended September 30, 2019. The Company had two major customers that accounted for 28% and 17%, respectively, of its total net sales during the nine months ended September 30, 2018. The Company had two major vendors that accounted for 24% and 16%, respectively, of total purchases during the nine months ended September 30, 2019 and 25% and 15%, respectively, of total purchases during the nine months ended September 30, 2018.

#### **Gross Profit**

Gross profit for the nine months ended September 30, 2019 increased 12%, or \$2.4 million, to \$22.1 million compared to \$19.7 million for the same period in the prior year. Lifeboat Distribution segment gross profit for the nine months ended September 30, 2019 increased 15%, or \$2.6 million, to \$19.7 million compared to \$17.1 million for the same period in the prior year due to the sales growth from existing and new product lines discussed above. TechXtend segment gross profit for the nine months ended September 30, 2019 decreased 8%, or \$0.2 million, to \$2.4 million compared to \$2.6 million due to the lower net sales discussed above.

Gross profit margin (gross profit as a percentage of net sales) for the nine months ended September 30, 2019 remained consistent with the same period in the prior year at 14.9%. Lifeboat Distribution segment gross profit margin for the nine months ended September 30, 2019 was 14.5% compared to 14.3% for the same period in the prior year. TechXtend segment gross profit margin for the nine months ended September 30, 2019 was 20.5% compared to 19.9% for the same period in the prior year.

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

SG&A expenses for the nine months ended September 30, 2019 increased \$0.8 million, or 5%, to \$16.1 million compared to \$15.2 million for the same period in the prior year. The increase is due primarily to increased salary and commission expense to support the increased sales on existing and new product lines, partially offset by a decrease in stock compensation expense. SG&A expenses were 10.9% of net sales for the nine months ended September 30, 2019, compared to 11.5% 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.

#### **Separation Expense**

Separation expense for the nine months ended September 30, 2019 was \$0.1 million compared to \$2.4 million for the same period in the prior year. Separation expense for the nine months ended September 30, 2019 related to the 2019 Separation Agreement, representing \$0.1 million accrued payments to be made over the subsequent six months. Separation expense for the nine months ended September 30, 2018 related to the 2018 Separation Agreement.

#### **Income Taxes**

For the nine months ended September 30, 2019 and 2018, the Company recorded a provision for income taxes of \$1.6 million and \$1.0 million, respectively. The effective tax rate for the nine months ended September 30, 2019 was 25.4% compared to 35.4% for the same period in the prior year.

The Company's effective tax rate for the nine months ended September 30, 2018 was impacted by limitations on the deductibility of executive compensation resulting from Section 162(m) of the Internal Revenue Code, and adjustments to the accrual for state income taxes in states which have enacted economic nexus statutes. The Company recorded a \$0.4 million tax benefit related to separation expenses during the nine months ended September 30, 2018 which were accounted for as a discrete item, resulting in an 18% effective tax benefit rate on that item. The Company also recorded an adjustment to its accrual for potential liabilities for state income taxes in states which had enacted economic nexus statutes of \$0.2 million during the nine months ended September 30, 2018. The effective tax rate for ordinary income was 24.2% for the nine months ended September 30, 2018.

#### **Liquidity and Capital Resources**

Our cash and cash equivalents decreased to \$10.2 million as of September 30, 2019 compared to \$14.9 million as of December 31, 2018. The decrease in cash and cash equivalents was primarily the result of \$2.4 million of cash and cash equivalents used in operating activities and \$2.3 million of cash used for dividends.

Net cash and cash equivalents used in operating activities for the nine months ended September 30, 2019 was \$2.4 million, comprised primarily of net income adjusted for non-cash items of \$5.7 million, offset by changes in operating assets and liabilities of \$8.1 million. Net cash and cash equivalents used in changes in working capital were the result of increases in accounts receivables due to increased sales to a large customer with longer than average payment terms and decreases in accounts payable related to timing as a result of a concentration of purchases during the last week of 2018 that were offset in-part by the utilization of vendor prepayments.

Net cash and cash equivalents used in investing activities during the nine months ended September 30, 2019 was \$0.1 million.

Net cash and cash equivalents used in financing activities during the nine months ended September 30, 2019 was \$2.4 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 (the “Security Agreement”) and Second Amended and Restated Pledge and Security Agreement (the “Pledge Agreement”). The Credit Facility, which will be used for working capital and general corporate purposes, matures on August 31, 2020, at which time the Company must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any interest, fees, costs and expenses, if any. As of September 30, 2019, no borrowings were outstanding under the Credit Facility.

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 at least the next 12 months.

Contractual Obligations as of September 30, 2019 are summarized as follows:

<b>Payment due by Period</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Operating Leases Obligations (1)	\$ 3,441	\$ 508	\$ 1,243	\$ 950	\$ 740
Total Contractual Obligations	\$ 3,441	\$ 508	\$ 1,243	\$ 950	\$ 740

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

As of September 30, 2019, the Company had no borrowings outstanding under our Credit Facility and no commitments relating to standby letters of credit, and has no standby repurchase obligations or other commercial commitments (see Note 9 in the Notes to our Condensed Consolidated Financial Statements).

#### **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 and the Euro Dollar to-U.S. Dollar exchange rate.

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

As of September 30, 2019, 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**

In addition to its activities in the United States, 9.2% of the Company sales during the nine months ended September 30, 2019 were generated by its subsidiaries in Canada and Europe. We are subject to general risks attendant to the conduct of business in Canada and Europe, including economic uncertainties and foreign government regulations. In addition, the Company’s international business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. See “Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Foreign Exchange.”

The Company’s cash balance is invested in short-term savings accounts with our primary banks, Citibank and JPMorgan Chase Bank. As such, we believe that the risk of significant changes in the value of our cash invested is minimal.

**Item 4. Controls and Procedures**

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

*Changes in Internal Control Over Financial Reporting.* There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act, that occurred during the three months ended September 30, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**Item 2. - Unregistered Sales of Equity Securities and Use of Proceeds**

The table below sets forth the repurchase of Common Stock by the Company and its affiliated purchasers during the third quarter of 2019.

**ISSUER PURCHASE OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid Per Share (3)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (4)
July 1, 2019 - July 31, 2019	—	\$ —	—	\$ —	547,488
August 1, 2019 - August 31, 2019	1,862 (1)	\$ 11.50	—	\$ —	547,488
September 1, 2019 - September 30, 2019	—	\$ —	—	\$ —	547,488
Total	<u>1,862</u>	<u>\$ 11.50</u>	<u>—</u>	<u>\$ —</u>	547,488

- (1) Includes 1,862 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of Restricted Stock. These shares are not included in the Common Stock repurchase program referred to in footnote (4) below.
- (2) Average price paid per share reflects the closing price the Company’s Common Stock on the business date the shares were surrendered by the employee stockholder to satisfy individual tax withholding obligations upon vesting of Restricted Stock or the price of the Common Stock paid on the open market purchase, as applicable.
- (3) Average price paid per share reflects the price of the Company’s Common Stock purchased on the open market.
- (4) On December 3, 2014, the Board of Directors 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.

**Item 6. Exhibits**

(a) Exhibits

[31.1](#) [Certification pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) of the Securities Exchange Act of 1934, of Michael Vesey, the Vice President and Chief Financial Officer \(principal executive and financial officer\) of the Company.](#)

[31.2](#) [Certification pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) of the Securities Exchange Act of 1934, of Kevin T. Scull, the Vice President and Chief Accounting Officer \(principal accounting officer\) 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 Michael Vesey, the Vice President and Chief Financial Officer \(principal executive and financial officer\) of the Company.](#)

[32.2](#) [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Kevin T. Scull, the Vice President and Chief Accounting Officer \(principal accounting officer\) of the Company.](#)

101 The following financial information from Wayside Technology Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, filed with the SEC on November 8, 2019, formatted in 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.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WAYSIDE TECHNOLOGY GROUP, INC

November 8, 2019

Date

By: /s/ Michael Vesey

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

November 8, 2019

Date

By: /s/ Kevin T. Scull

Kevin T. Scull, Vice President and Chief Accounting Officer  
(Principal Accounting 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: November 8, 2019

/s/ Michael Vesey

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

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**CERTIFICATION**

I, Kevin T. Scull, 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: November 8, 2019

/s/ Kevin T. Scull

Kevin T. Scull  
Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

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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 September 30, 2019 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 Executive and Financial Officer)  
November 8, 2019

*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.*

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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 September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin T. Scull, 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/ Kevin T. Scull

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Kevin T. Scull  
Vice President and Chief Accounting Officer  
(Principal Accounting Officer)  
November 8, 2019

*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.*

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