UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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 number: 000-26408

WAYSIDE TECHNOLOGY GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3136104**
(State or other jurisdiction of incorporation)	(IRS Employer Identification Number)
4 Industrial Way West, Suite 300 Eatontown, NJ	**07724**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(732) 389-0932**

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	WSTG	The NASDAQ Global Market

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ☐ No ☒

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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒	Smaller reporting company ☒
			Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the Common Stock held by non-affiliates of the Registrant computed by reference to the closing sale price for the Registrant's Common Stock as of June 28, 2019, which was the last business day of the Registrant's most recently completed second fiscal quarter, as reported on The NASDAQ Global Market, was approximately $47,485,650 (In determining the market value of the Common Stock held by any non-affiliates, shares of Common Stock of the Registrant beneficially owned by directors, officers and holders of more than 10% of the outstanding shares of Common Stock of the Registrant have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes).

The number of shares outstanding of the Registrant's Common Stock as of February 20, 2020 was 4,562,444 shares.

Documents Incorporated by Reference: Portions of the Registrant's definitive Proxy Statement for its 2020 Annual Meeting of Stockholders to be filed on or before April 29, 2020 are incorporated by reference into Part III of this Report.

PART I

SPECIAL NOTE REGARDING 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”), and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”). All statements, other than statements of historical or current fact, in this report are forward-looking statements, including but not limited to statements regarding future events or conditions, industry prospects and the Company’s expected financial position, business and financing plans. These forward-looking statements may be accompanied by such words as “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “potential,” “project,” “target,” “should,” “likely,” “will” and other words and terms of similar meaning.

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. These forward-looking statements are subject to certain known and unknown risks and uncertainties, as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. We strongly urge current and prospective investors to carefully consider the cautionary statements and risks contained in this report, particularly the risks described under “Item 1A. Risk Factors” herein. Such risks include, but are not limited to, the continued acceptance of the Company’s distribution channel by vendors and customers, the timely availability and acceptance of new products, contribution of key vendor relationships and support programs, as well as factors that affect the software industry generally.

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.

Item 1. Business

General

Wayside Technology Group, Inc. and Subsidiaries (the “Company,” “us,” “we,” or “our”) is an information technology (“IT”) channel company. The Company primarily operates through its “Lifeboat Distribution” segment, which distributes emerging technologies to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide. The Company also operates a smaller segment called “TechXtend”, which is a value-added reseller of software, hardware and services for corporations, government organizations and academic institutions in the USA and Canada. Across both segments, we offer an extensive line of products from leading software vendors and tools for virtualization/cloud computing, security, networking, storage and infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware.

The Company was incorporated in Delaware in 1982. Our common stock, par value $0.01 per share (“Common Stock”) is listed on The NASDAQ Global Market under the symbol “WSTG”. Our main web site address is www.waysidetechnology.com, and the other web sites maintained by our business include www.lifeboatdistribution.com and www.techxtend.com. The information contained on, or otherwise accessible through, our websites is not part of, or incorporated by reference into, this report.

In our Lifeboat Distribution segment, we distribute technology products from software developers, software vendors or original equipment manufacturers (OEMs) to resellers, and system integrators worldwide. We purchase software, maintenance/service agreements, networking/storage/security equipment and complementary products from our vendors and sell them to our reseller customers. The large majority of products we sell are “drop shipped” directly to the customers, which reduces physical handling by the Company and required investment in inventory. Generally, a vendor authorizes a limited number of companies to act as distributors of their product and sell to resellers of their product. Our reseller customers include value-added resellers, or VARs, corporate resellers, government resellers, system integrators, direct marketers, and national IT superstores. We combine our core strengths in customer service, marketing, distribution, credit and billing to allow our customers to achieve greater efficiencies in time to market in the IT channel in a cost-effective manner.

While our Lifeboat Distribution business is characterized by low gross profit as a percentage of adjusted gross billings, or gross margin, and price competition, we have been able to operate profitably by leveraging an efficient business model. The large majority of the products we sell are either digital products such as license authorizations, third party maintenance contracts, or hardware which is dropped shipped to the end customer directly by the vendor. We utilize electronic digital interchange (“EDI”) and other automation to fulfill these orders on a cost-efficient basis. We also maintain relatively low inventory balances relative to our gross billings and enjoy what we believe is favorable credit from our suppliers, allowing us to deploy a capital efficient model as reflected by our return on invested capital and pre-tax income as a percentage of gross profit generated.

In our Lifeboat segment, we are highly dependent on the end-market demand for the products we sell, and on our partners’ strategic initiatives and business models. This end-market demand is influenced by many factors including the introduction of new products, replacement and renewal cycles for existing products, competitive products, overall economic growth and general business activity. A difficult and challenging economic environment may also lead to consolidation or decline in the industry and increased price-based competition. We continually review the marketplace to identify new and emerging vendors and products to potentially add to our vendor partners.

We also provide comprehensive IT solutions directly to end users through our TechXtend segment. Products in this segment are acquired directly from original equipment manufacturers (OEMs), software developers or distributors and sold to end users. We provide customer service, billing, sales and marketing support in this segment and provide extended payment terms to facilitate sales.

The Company operates a distribution facility in Eatontown, New Jersey.

Products

An essential part of our ongoing operations and growth plans is the continued recruitment of software vendors for which we become authorized distributors of their products. Through our Lifeboat Distribution business, we sell a wide variety of technology products from a broad range of software vendors and manufacturers, such as Bluebeam Software, Flexera Software, Intel Software, Lenovo, Micro Focus, Mindjet, SmartBear Software, SolarWinds, Sophos, StorageCraft Technology, TechSmith, Unitrends, CloudGenix, Tintri and Extrahop. On a continuous basis, we screen new vendors and products for inclusion in our line card based on their features, quality, price, profit margins and current market trends. We believe that effective purchasing from a diverse vendor base is a key element of our business strategy. For the year ended December 31, 2019, Sophos and SolarWinds accounted for 22% and 17%, respectively of our consolidated purchases. For the year ended December 31, 2018, Sophos and SolarWinds accounted for 24% and 15%, respectively of our consolidated purchases. The loss of a key vendor or group of vendors could disrupt our product availability and otherwise have an adverse effect on the Company.

The Company predominantly sells third party software, software subscriptions, and maintenance. Sales of hardware and peripherals represented 6% and 8% of our adjusted gross billings in 2019 and 2018, respectively.

Marketing and Distribution

We market products through creative marketing communications, including our web sites, local and on-line seminars, events, webinars, and social media. We also use direct e-mail and printed material to introduce new products and upgrades, to cross-sell products to current customers, and to educate and inform existing and potential customers. We believe that our blend of electronic and traditional marketing and selling programs are important marketing vehicles for software vendors and manufacturers. These programs provide a cost-effective and service-oriented means to market and sell and fulfill software products and meet the needs of users.

The Company had two customers that each accounted for more than 10% of total consolidated net sales for 2019. For the year ended December 31, 2019, CDW Corporation (NASDAQ: CDW) ("CDW") and Software House International Corporation ("SHI"), accounted for 26%, and 16%, respectively, of consolidated net sales and as of December 31, 2019, 43% and 12%, respectively, of total net accounts receivable. For the year ended December 31, 2018, CDW and SHI accounted for 26%, and 17%, respectively, of consolidated net sales and as of December 31, 2018, 36% and 15%, respectively, of total net accounts receivable. Our top five customers accounted for 56% and 55% of consolidated net sales in 2019 and 2018, respectively. The Company generally ships products within 48 hours of confirming a customer's order. This results in minimum backlog in the business.

Net sales to customers in Canada represented 6% and 7% of our consolidated net sales in 2019 and 2018, respectively. Net sales in Europe and the rest of the world represented 5% and 6% of our consolidated net sales in 2019 and 2018, respectively. For geographic financial information, please refer to Note 12 in the Notes to our Consolidated Financial Statements.

Customer Support

We believe that providing a high level of customer service is necessary to compete effectively and is essential to continued sales and revenue growth. Our account representatives assist our customers with all aspects of purchasing decisions, order processing, returns processing, and inquiries on order status, product pricing and availability. The account representatives are trained to answer all basic questions about the features and functionality of products.

Purchasing and Fulfillment

The Company's success is dependent, in part, upon the ability of its suppliers to develop and market products that meet the changing requirements of the marketplace. The Company believes it maintains good relationships with its vendors. The Company and its principal vendors have cooperated frequently in product introductions and in other marketing programs. As is customary in the industry, the Company has no long-term supply contracts with any of its suppliers. While substantially all the Company's contracts with its vendors are terminable upon 30 days' notice or less, the tenure of the relationships with our vendor partners tends to extend over several years. Moreover, the way software products are distributed and sold is changing, and new methods of distribution and sale may emerge or expand. Software vendors have sold, and may intensify their efforts to sell, their products directly to end-users. The Company's business and results of operations may be adversely affected if the terms and conditions of the Company's authorizations with its vendors were to be significantly modified or if certain products become unavailable to the Company.

The Company purchased approximately 98% and 97% of its products directly from manufacturers and software vendors in 2019 and 2018, respectively, and the balance from multiple distributors. Most suppliers or distributors will "drop ship" products directly to the customers, which reduces physical handling by the Company. Inventory management techniques, such as "drop shipping" allow the Company to offer a greater range of products without increased inventory requirements or cost of carrying inventory.

Inventory levels may vary from period to period, due in part to increases or decreases in sales levels, the Company's practice of making advance purchases when it deems the terms of such purchases to be attractive, and the addition of new suppliers and products. From time to time, we may make advance payments to vendors to apply against future purchases from the vendor. Moreover, the Company's order fulfillment and inventory control systems allow the Company to order certain products just in time for next day shipping. The Company promotes the use of EDI with its suppliers and customers, which helps reduce overhead and the use of paper in the ordering process.

Competition

The software market is highly competitive and characterized by aggressive pricing practices by both software distributors and resellers. This has resulted in declining gross margins as a percentage of adjusted gross billings, which the Company expects to continue. The Company faces competition from a wide variety of sources competing principally based on price, product availability, customer service and technical support. In the Lifeboat Distribution segment, we compete against much larger broad-line distributors, as well as specialty distributors and, in some cases, the direct sales teams of the vendors we represent, who also sell directly to the end-customers. In the TechXtend segment, we compete against vendors who sell directly to customers, as well as software resellers, superstores, e-commerce vendors, and other direct marketers of software and hardware products. In both segments, some of our competitors are significantly larger and have substantially greater resources than the Company.

There can be no assurance that the Company can compete effectively against existing competitors or new competitors that may enter the market or that it can generate profit margins which represent an acceptable return to the Company. An increase in the amount of competition faced by the Company, or its failure to compete effectively against its competitors, could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company competes with other distributors and resellers to become an authorized distributor or reseller of products from software developers and vendors. It also competes with distributors and resellers to attract prospective buyers, and to source new products from software developers and vendors, and to market its current product line to customers. The Company believes that its ability to offer software developers and IT professionals easy access to a wide selection of the desired IT products at reasonable prices with prompt delivery and high customer service levels, along with its good relationships with vendors and suppliers, allows it to compete effectively. The Company competes to gain distribution rights for new products primarily based on its reputation for successfully bringing new products to market and the strength of and quality of its relationships with software vendors and the reseller community.

The market for the software products we sell is characterized by rapid changes in technology, user requirements, and customer specifications. The way software products are distributed and sold is changing, and new methods of distribution and sale may emerge or expand. Software developers and vendors have sold, and may intensify their efforts to sell, their products directly to end-users. The continuing evolution of the internet as a platform in which to conduct e-commerce business transactions has both lowered the barriers for competition and broadened customer access to products and information, increasing competition and reducing prices. From time to time, certain software developers and vendors have instituted programs for the direct sale of large order quantities of software to certain major corporate accounts and renewals of maintenance agreements. These types of programs may continue to be developed and used by various developers and vendors. While some software developers and vendors currently sell new releases or upgrades directly to end users, they have not attempted to completely bypass the distribution and reseller channels. There can be no assurances, however, that software developers and vendors will continue using distributors and resellers to the same extent they currently do. Future efforts by software developers and vendors to bypass third-party sales channels could materially and adversely affect the Company's business, results of operations and financial condition.

In addition, resellers and software vendors may attempt to increase the volume of software products distributed electronically through ESD (Electronic Software Distribution) technology, through subscription services, and through on-line shopping services. Any of these competitive programs, if successful, could have a material adverse effect on the Company's business, results of operations and financial condition. For a description of additional risks relating to competition in our industry, please refer to "Item 1.A. Risk Factors."

Information Technology

The Company operates IT systems on several platforms including windows and cloud-based platforms that control the full order processing cycle. The technology systems allow for centralized management of key functions, including inventory, accounts receivable, purchasing, sales and distribution and payment processing. We are dependent on the accuracy and proper utilization of our technology systems, telephone systems, websites, e-mail and EDI systems.

Our IT systems allow us to monitor sales trends, real-time product availability, order status throughout the full order cycle, and automates order transactions and invoicing transactions for our customers and vendors. The main focus of our IT systems is to allow us to transact and communicate with our customers and vendors in the most efficient manner possible. We provide various options to transact electronically with our customers and vendors through EDI, XML and other electronic methods.

The Company recognizes the need to continually upgrade its IT systems to effectively manage and secure its infrastructure and customer data and to provide continued scalability and flexibility. In that regard, the Company anticipates that it will, from time to time, require software and hardware upgrades for its present IT systems.

Trademarks

The Company conducts its business under various trademarks and service marks including Lifeboat Distribution, TechXtend and International Software Partners. The Company protects these trademarks and service marks and believes that they have significant value to us and are important factors in our marketing programs.

Employees

As of December 31, 2019, Wayside Technology Group, Inc. and its subsidiaries had 142 full-time employees. The Company is not a party to any collective bargaining agreements with its employees, has experienced no work stoppages and considers its relationships with its employees to be satisfactory.

Available Information

Under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company is required to file annual, quarterly and current reports, proxy and information statements and other information with the Securities and Exchange Commission ("SEC"). The SEC maintains a web site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. The Company also makes available, free of charge, through its internet web site at http://www.waysidetechnology.com, its reports on Forms 10-K and 10-Q, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. The Company will provide paper copies of its reports on Form 8-K free of charge as requested. The information contained on, or otherwise accessible through, our website is not part of, or incorporated by reference into, this annual report.

In December 2017, we adopted a Code of Ethics and Business Conduct. We review the Code of Ethics and Business Conduct annually and consider updates as necessary. The full text of the Code of Ethics and Business Conduct, which applies to all employees, officers and directors of the Company, including our Chief Executive Officer and Chief Financial Officer, is available at our web site, http://www.waysidetechnology.com. We intend to disclose any amendment to, or waiver from, a provision of the Code of Ethical Conduct that applies to its Chief Executive Officer or Chief Financial Officer on our web site.

Item 1A. Risk Factors

Investors should carefully consider the risk factors set forth below as well as the other information contained in this report. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or those currently viewed by us to be immaterial may also materially and adversely affect our business, financial condition or results of operations.

Changes in the information technology industry and/or economic environment may reduce demand for the products and services we sell. Our results of operations are influenced by a variety of factors, including the condition of the IT industry, general economic conditions, shifts in demand for, or availability of, computer products and software and IT services and industry introductions of new products, upgrades or methods of distribution. The information technology products industry is characterized by abrupt changes in technology, rapid changes in customer preferences, short product life cycles and evolving industry standards. Net sales can be dependent on demand for specific product categories, and any change in demand for or supply of such products could have a material adverse effect on our net sales, and/or cause us to record write-downs of obsolete inventory, if we fail to react in a timely manner to such changes.

We rely on our suppliers for product availability, marketing funds, purchasing incentives and competitive products to sell.We acquire products for resale both directly from manufacturers and indirectly from distributors. The loss of a supplier could cause a disruption in the availability of products. Additionally, there is no assurance that as manufacturers continue to or increasingly sell directly to end users and through the distribution channel, that they will not limit or curtail the availability of their products to distributors/resellers like us. For example, resellers and software vendors may attempt to increase the volume of software products distributed electronically through ESD (Electronic Software Distribution) technology, through subscription services, and through on-line shopping services, and correspondingly, decrease the volume of products sold through us. Our inability to obtain a sufficient quantity of products, or an allocation of products from a manufacturer in a way that favors one of our competitors, or competing distribution channels, relative to us, could cause us to be unable to fill clients' orders in a timely manner, or at all, which could have a material adverse effect on our business, results of operations and financial condition. We also rely on our suppliers to provide funds for us to market their products, including through our on-line marketing efforts, and to provide purchasing incentives to us. If any of the suppliers that have historically provided these benefits to us decides to reduce such benefits, our expenses would increase, adversely affecting our results of operations.

General economic weakness may reduce our revenues and profits. Generally, economic downturns, may cause some of our current and potential customers to delay or reduce technology purchases, resulting in longer sales cycles, slower adoption of new technologies and increased price competition. We may, therefore, experience a greater decline in demand for the products we sell, resulting in increased competition and pressure to reduce the cost of operations. Any benefits from cost reductions may take longer to realize and may not fully mitigate the impact of the reduced demand. In addition, weak financial and credit markets heighten the risk of customer bankruptcies and create a corresponding delay in collecting receivables from those customers and may also affect our vendors' ability to supply products, which could disrupt our operations. The realization of any or all these risks could have a material adverse effect on our business, results of operations and financial condition.

Economic, political and market conditions can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price. Our business is influenced by a range of factors that are beyond our control and that we have no comparative advantage in forecasting. Macroeconomic developments like evolving trade policies between the U.S. and international trade partners, or the occurrence of similar events in the U.S. or other countries that lead to uncertainty or instability in economic, political or market conditions could negatively affect our business, operating results, financial condition and outlook, which, in turn, could adversely affect our stock price. In addition, international, regional or domestic political unrest and the related potential impact on global stability, terrorist attacks and the potential for other hostilities in various parts of the world, potential public health crises (such as the coronavirus outbreak) and natural disasters continue to contribute to a climate of economic and political uncertainty that could adversely affect our results of operations and financial condition, including our revenue growth and profitability.

The IT products and services industry is intensely competitive and actions of competitors, including manufacturers of products we sell, can negatively affect our business. Competition has been based primarily on price, product availability, speed of delivery, credit availability and quality and breadth of product lines and, increasingly, also is based on the ability to tailor specific solutions to client needs. We compete with manufacturers, including manufacturers of products we sell, as well as a large number and wide variety of marketers and resellers of IT products and services. In addition, manufacturers are increasing the volume of software products they distribute electronically directly to end-users and in the future, will likely pay lower referral fees for sales of certain software licensing agreements sold by us. Generally, pricing is very aggressive in the industry, and we expect pricing pressures to continue. There can be no assurance that we will be able to negotiate prices as favorable as those negotiated by our competitors or that we will be able to offset the effects of price reductions with an increase in the number of clients, higher net sales, cost reductions, or greater sales of services, which service sales typically are delivered at higher gross margins, or otherwise. Price reductions by our competitors that we either cannot or choose not to match could result in an erosion of our market share and/or reduced sales or, to the extent we match such reductions, could result in reduced operating margins, any of which could have a material adverse effect on our business, results of operations and financial condition.

The way software products are distributed and sold is changing, and new methods of distribution and sale may emerge or expand. Software vendors have sold, and may intensify their efforts to sell, their products directly to end-users. There can be no assurances that software developers and vendors will continue using distributors and resellers to the same extent they currently do. Future efforts by software developers and vendors to bypass third-party sales channels could materially and adversely affect the Company's business, results of operations and financial condition. In addition, resellers and software vendors may attempt to increase the volume of software products distributed electronically through ESD (Electronic Software Distribution) technology, through subscription services, and through on-line shopping services. Any of these competitive programs, if successful, could have a material adverse effect on the Company's business, results of operations and financial condition. The Company's business and results of operations may be adversely affected if the terms and conditions of the Company's authorizations with its vendors were to be significantly modified or if certain products become unavailable to the Company.

We offer credit to our customers and, therefore, are subject to significant credit risk.We sell our products to a large and diverse customer base. We finance a significant portion of such sales through trade credit, typically by providing 30-75-day payment terms. In addition, we offer extended payment terms to certain customers for terms of 1-3 years. As a result, our business could be adversely affected in the event of a deterioration of the financial condition of our customers, resulting in the customers' inability to repay us. This risk may increase if there is a general economic downturn affecting a large number of our customers and in the event our customers do not adequately manage their business or properly disclose their financial condition. Also, several of our larger customers require greater than 30-day payment terms which could increase our credit risk and decrease our operating cash flow.

We face substantial competition from other companies.We compete in all areas of our business against local, regional, national, and international firms. Some of our current competitors have substantially greater capital resources and sales and distribution capabilities than we do. In response to competitive pressures from any of our current or future competitors, we may be required to lower selling prices in order to maintain or increase market share, and such measures could adversely affect our operating results. In addition, we face competition from vendors, which may choose to market their products directly to end-users, rather than through channel partners such as the Company, and this could adversely affect our future sales. Many competitors compete based principally on price and may have lower costs or accept lower selling prices than we do and, therefore, our gross margins may not be maintainable. Our gross margins have declined historically and may continue to decline in the future. Our competitors may offer better or different products and services than we offer. In addition, we do not have guaranteed purchasing volume commitments from our customers and, therefore, our sales volume may be volatile.

Our business is substantially dependent on a limited number of customers and vendors, and the loss or any change in the business habits of such key customers or vendors may have a material adverse effect on our financial position and results of operations. Because our standing arrangements and agreements with our customers and vendors typically contain no purchase or sale obligations and are terminable by either party upon several months or otherwise relatively short notice, we are subject to significant risks associated with the loss or change at any time in the business habits and financial condition of key customers or vendors. We have experienced the loss and changes in the business habits of key customer and vendor relationships in the past and expect to do so again in the future.

Sales of products purchased from our largest two vendors accounted for 39% of our 2019 purchasesand sales from our largest five vendors generated approximately 54% of 2019 purchases. As is the case with many of our vendor and customer relationships, our contractual arrangements with these large vendors are terminable by either party upon several months' notice. If these contracts or our relationships with these vendors terminate for any reason, or if any of our other significant vendor relationships terminate for any reason, and we are not able to sell or procure a sufficient supply of those products from alternative sources, or at all, our financial position and results of operations would be adversely affected. Our vendors are subject to many if not all of the same (or similar) risks and uncertainties to which we are subject, as well as other risks and uncertainties, and we compete with others for their business. Accordingly, we are at a continual risk of loss of their business on account of a number of factors and forces, many of which are largely beyond our control.

In 2019, our two largest customers accounted for 42% of our net sales and our largest five customers accounted for 56% of our net sales. If any of our significant customer relationships terminate for any reason, and we are not able to replace those customers and associated revenues, our financial position and results of operations would be adversely affected.

Disruptions in our information technology and voice and data networks could affect our ability to service our clients and cause us to incur additional expenses. We believe that our success to date has been, and future results of operations likely will be, dependent in large part upon our ability to provide prompt and efficient service to clients. Our ability to provide such services is dependent largely on the accuracy, quality and utilization of the information generated by our IT systems, which affect our ability to manage our sales, client service, distribution, inventories and accounting systems and the reliability of our voice and data networks.

Failure to adequately maintain the security of our electronic and other confidential information could materially adversely affect our financial condition and results of operations. We are dependent upon automated information technology processes. Privacy, security, and compliance concerns have continued to increase as technology has evolved to facilitate commerce and as cross-border commerce increases. As part of our normal business activities, we collect and store certain confidential information, including personal information of employees and information about partners and clients which may be entitled to protection under several regulatory regimes. In the course of normal and customary business practice, we may share some of this information with vendors who assist us with certain aspects of our business. Moreover, the success of our operations depends upon the secure transmission of confidential and personal data over public networks, including the use of cashless payments. Although we did not have any material cybersecurity breaches in 2019 and 2018, any failure on the part of us or our vendors to maintain the security of data we are required to protect, including via the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in our employees', partners' and clients' confidence in us and other competitive disadvantages, and thus could have a material adverse impact on our business, financial condition and results of operations.

We depend on certain key personnel. Our future success will be largely dependent on the efforts of key management personnel for strategic and operational guidance as well as relationships with our key vendors and customers. We also believe that our future success will be largely dependent on our continued ability to attract and retain highly qualified management, sales, service, finance and technical personnel. We cannot assure you that we will be able to attract and retain such personnel. Further, we make a significant investment in the training of our sales account executives. Our inability to retain such personnel or to train them either rapidly enough to meet our expanding needs or in an effective manner for quickly changing market conditions could cause a decrease in the overall quality and efficiency of our sales staff, which, in turn, could have a material adverse effect on our business, results of operations and financial condition.

If the Company fails to maintain an effective system of internal controls or discovers material weaknesses in its internal controls over financial reporting, it may not be able to report its financial results accurately or timely or detect fraud, which could have a material adverse effect on its business. An effective internal control environment is necessary for the Company to produce reliable financial reports and is an important part of its effort to prevent financial fraud. The Company is required to annually evaluate the effectiveness of the design and operation of its internal controls over financial reporting. Based on these evaluations, the Company may conclude that enhancements, modifications, or changes to internal controls are necessary or desirable. While management evaluates the effectiveness of the Company's internal controls on a regular basis, these controls may not always be effective. There are inherent limitations on the effectiveness of internal controls, including collusion, management override, and failure in human judgment. In addition, control procedures are designed to reduce rather than eliminate financial statement risk. If the Company fails to maintain an effective system of internal controls, or if management or the Company's independent registered public accounting firm discovers material weaknesses in the Company's internal controls, it may be unable to produce reliable financial reports or prevent fraud, which could have a material adverse effect on the Company's business. In addition, the Company may be subject to sanctions or investigation by regulatory authorities, such as the SEC or the NASDAQ. Any such actions could result in an adverse reaction in the financial markets due to a loss of confidence in the reliability of the Company's financial statements, which could cause the market price of its Common Stock to decline or limit the Company's access to capital.

The Company may be subject to intellectual property rights claims, which are costly to defend, could require payment of damages or licensing fees and could limit the company's ability to use certain technologies in the future. Certain of the Company's products and services include intellectual property owned primarily by the Company's
third-party suppliers. Substantial litigation and threats of litigation regarding intellectual property rights exist in the software and some service industries. From time to time, third parties (including certain companies in the business of acquiring patents not for the purpose of developing technology but with the intention of aggressively seeking licensing revenue from purported infringers) may assert patent, copyright and/or other intellectual property rights to technologies that are important to the company's business. In some cases, depending on the nature of the claim, the company may be able to seek indemnification from its suppliers for itself and its customers against such claims, but there is no assurance that it will be successful in obtaining such indemnification or that the Company is fully protected against such claims. Any infringement claim brought against the company, regardless of the duration, outcome, or size of damage award, could result in substantial cost to the Company, divert management's attention and resources, be time consuming to defend, result in substantial damage awards, or cause product shipment delays.

Additionally, if an infringement claim is successful the Company may be required to pay damages or seek royalty or license arrangements, which may not be available on commercially reasonable terms. The payment of any such damages or royalties may significantly increase the Company's operating expenses and harm the Company's operating results and financial condition. Also, royalty or license arrangements may not be available at all. The Company may have to stop selling certain products or using technologies, which could affect the Company's ability to compete effectively.

We may explore additional growth through acquisitions. As part of our growth strategy, we may pursue the acquisition of companies that either complement or expand our existing business. As a result, we regularly evaluate potential acquisition opportunities, which may be material in size and scope. In addition to those risks to which our business and the acquired businesses are generally subject, the acquisition of these businesses gives rise to transactional and transitional risks, and the risk that the anticipated benefits will not be realized.

Changes in income tax and other regulatory legislation. We operate in compliance with applicable laws and regulations and make plans for our structure and operations based upon existing laws and anticipated future changes in the law. When new legislation is enacted with minimal advance notice, or when new interpretations or applications of existing laws are made, we may need to implement changes in our policies or structure. We are susceptible to unanticipated changes in legislation, especially relating to income and other taxes, import/export laws, hazardous materials and other laws related to trade, accounting and business activities. Such changes in legislation may have an adverse effect on our business.

We may be subject to litigation. We may be subject to legal claims or regulatory matters involving stockholder, consumer, antitrust, intellectual property and other issues. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or other adverse effects. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on our business, financial position and results of operations for the period in which the ruling occurred or future periods.

Our business could be negatively affected as a result of the actions of activist shareholders. Publicly traded companies have increasingly become subject to campaigns by activist investors advocating corporate actions such as financial restructurings, increased borrowings, special dividends, stock repurchases or even sales of assets or entire companies to third parties or the activists themselves. Responding to proxy contests and other actions by activist shareholders can be costly and time-consuming, disrupt our operations and divert the attention of our Board of Directors and senior management from the pursuit of business strategies, which could adversely affect our results of operations and financial condition. Additionally, perceived uncertainties as to our future direction as a result of shareholder activism or changes to the composition of the Board of Directors may lead to the perception of a change in the direction of the business, instability or lack of continuity. These uncertainties may be more acute or heightened when an activist seeks to change a majority of the Board of Directors or ultimately desires to acquire the Company. Additionally, actions by activist shareholders may be exploited by our competitors, cause concern to our current or potential customers, make it more difficult to attract and retain qualified personnel and may create adverse uncertainty for our employees.

On December 20, 2019, Simon F. Nynens nominated four individuals for election to our Board of Directors at the 2020 annual meeting of stockholders. Mr. Nynens previously served as the Chairman of the Board of Directors, President and Chief Executive Officer of the Company. According to publicly available filings made to the Securities and Exchange Commission, Mr. Nynens granted to Shepherd Kaplan Krochuk, LLC (“SKK”) an irrevocable proxy to vote his shares of our common stock in favor of any acquisition proposal by SKK, against any third-party acquisition and as directed by SKK with respect to the election of directors nominated by persons other than the Company. Prior to the entrance of Mr. Nynens into such agreement with SKK, the Company had received unsolicited acquisition proposals from SKK and North & Webster SSG, LLC (“N&W” and together with SKK, the “N&W Group”) jointly to acquire all of the outstanding shares of common stock of the Company. The most recent unsolicited acquisition proposal from the N&W Group was received on December 10, 2019 and expired on its own terms on December 16, 2019.

While the N&W Group’s most recent proposal has expired, there can be no assurance that the N&W Group or another third party will not make another unsolicited acquisition proposal in the future and no assurance that if the four persons proposed by Mr. Nynens for election at our 2020 annual meeting are elected, they will not attempt to influence the Company’s decision related to any future acquisition proposal made by the N&W Group or another third party.

By letter dated January 22, 2020, a shareholder of the Company demanded that the Board of Directors investigate and bring an action against Mr. Nynens for his breaches of certain restrictive covenants contained in the separation agreement he entered into with the Company on or about May 11, 2018. Following receipt of the shareholder demand, we filed a lawsuit on February 14, 2020, in the Superior Court of New Jersey Monmouth County, against Mr. Nynens and the N&W Group on the grounds that Mr. Nynens breached certain restrictive covenants in his separation agreement with the Company by seeking future employment with the Company and by sharing confidential information with the N&W Group, and that the N&W Group had tortiously induced Mr. Nynens to commit those breaches. In connection with the claims, we are seeking monetary damages, injunctive relief, and a declaratory judgment against Mr. Nynens and the N&W Group. We may choose to initiate, or may become subject to, other litigation as a result of continued or further stockholder activist campaigns, which could serve as a distraction to our Board of Directors and management and could require us to incur additional costs.

Our quarterly financial results may fluctuate, which could lead to volatility in our stock price.Our revenue and operating results have fluctuated from quarter to quarter in the past and may continue to do so in the future. As a result, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of our future performance. Fluctuations in our revenue and operating results could negatively affect the trading price of our stock. In addition, our revenue and results of operations may, in the future, be below the expectations of analysts and investors, which could cause our stock price to decline. Factors that are likely to cause our revenue and operating results to fluctuate include the risk factors discussed throughout this section.

The elimination of LIBOR could adversely affect our business, operating results, and financial condition. The U. K.'s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. The U.S. Federal Reserve has begun publishing a Secured Overnight Funding Rate ("SOFR"), which is intended to replace U.S. dollar LIBOR. Plans for alternative reference rates for other currencies have also been announced. At this time, we cannot predict how markets will respond to these proposed alternative rates or the effect of any changes to LIBOR or the discontinuation of LIBOR. If LIBOR is no longer available or if our lenders have increased costs due to changes in LIBOR, we may experience potential increases in interest rates on our variable rate debt, which could adversely impact our interest expense, results of operations and cash flows.

Changes in accounting rules, or the misapplication of current accounting rules, may adversely affect our future financial results. We prepare our financial statements in conformity with accounting principles generally accepted in the U.S. These accounting principles are subject to interpretation by the Financial Accounting Standards Board, the Public Company Accounting Oversight Board, the SEC, the American Institute of Certified Public Accountants ("AICPA") and various other bodies formed to interpret and create appropriate accounting policies. Future periodic assessments required by current or new accounting standards may result in noncash charges and/or changes in presentation or disclosure. In addition, any change in accounting standards may influence our customers' decision to purchase from us or finance transactions with us, which could have a significant adverse effect on our financial position or results of operations.

We are required to determine if we are the principal or agent in all transactions with our customers. The voluminous number of products and services we sell, and the manner in which they are bundled, are technologically complex. Mischaracterization of these products and services could result in misapplication of revenue recognition polices. We use estimates where necessary, such as allowance for doubtful accounts and product returns, which require judgment and are based on best available information. If we are unable to accurately estimate the cost of these services or the timeline for completion of contracts, the profitability of our contracts may be materially and adversely affected.

The inability to obtain financing on favorable terms will adversely impact our business, financial position and results of operations. Our business requires working capital to operate and to finance accounts receivable and product inventory that are not financed by trade creditors. We have historically relied upon cash generated from operations, revolving credit facilities and trade credit from our vendors to satisfy our capital needs and finance growth. As the financial markets change, the cost of acquiring financing and the methods of financing may change. Changes in our credit rating or other market factors may increase our interest expense or other costs of capital, or capital may not be available to us on competitive terms to fund our working capital needs.

We may not be able to continue to pay dividends on our Common Stock in the future, which could impair the value of our Common Stock. We have paid a quarterly dividend on our Common Stock since the first quarter of 2003. Any future declaration of dividends remains subject to further determination from time to time by our Board of Directors. Our ability to pay dividends in the future will depend on our financial results, liquidity and financial condition. There is no assurance that we will be able to pay dividends in the future, or if we are able to, that our Board of Directors will continue to declare dividends in the future, at current rates or at all. If we discontinue or reduce the amount or frequency of dividends, the value of our Common Stock may be impaired.

Risks related to our Common Stock. The exercise of options or any other issuance of shares by us may dilute your ownership of our Common Stock. Our Common Stock is thinly traded, which may be exacerbated by our repurchases of our Common Stock. As a result of the thin trading market for our stock, its market price may fluctuate significantly more than the stock market as a whole or of the stock prices of similar companies. Without a larger float, our Common Stock will be less liquid than the stock of companies with broader public ownership, and, as a result, the trading prices for our Common Stock may be more volatile. Among other things, trading of a relatively small volume of our Common Stock may have a greater impact on the trading price of our stock than would be the case if our public float were larger.

Our Common Stock is listed on The NASDAQ Global Market, and we therefore are subject to continued listing requirements, including requirements with respect to the market value and number of publicly-held shares, number of stockholders, minimum bid price, number of market makers and either (i) stockholders' equity or (ii) total market value of stock, total assets and total revenues. If we fail to satisfy one or more of the requirements, we may be delisted from The NASDAQ Global Market. If we do not qualify for listing on The NASDAQ Capital Market, and if we are not able to list our Common Stock on another exchange, our Common Stock could be quoted on the OTC Bulletin Board or on the "pink sheets". As a result, we could face significant adverse consequences including, among others, a limited availability of market quotations for our securities and a decreased ability to issue additional securities or obtain additional financing in the future.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company leases approximately 20,000 square feet of space in Eatontown, New Jersey for its corporate headquarters under a lease expiring in March 2027. Total annual rent expense for these premises is approximately $420,000. The Company also leases 7,800 square feet of warehouse space in Eatontown, New Jersey under a lease expiring in October 2020. Total annual rent expense for such warehouse space is approximately $49,000. We believe that each of the properties is in good operating condition and that such properties are adequate for the operation of the Company's business as currently conducted. We also rent smaller satellite offices on a short-term basis.

Item 3. Legal Proceedings

By letter dated January 22, 2020, a shareholder of the Company demanded that the Board of Directors investigate and bring an action against the Company's former Chairman, President and Chief Executive Officer, Simon Nynens, for his breaches of certain restrictive covenants contained in the separation agreement he entered into with the Company on or about May 11, 2018. Following receipt of the shareholder demand, the Company filed a lawsuit against Mr. Nynens, Shepherd Kaplan Krochuk, LLC ("SKK"), and North & Webster SSG, LLC ("N&W," and together with SKK, the "N&W Group") on February 14, 2020, in the Superior Court of New Jersey Monmouth County. The Company's complaint asserts claims against Mr. Nynens for his breaches of his separation agreement with the Company and claims for tortious interference against the N&W Group for inducing Mr. Nynens to commit those breaches. In connection with its claims, the Company seeks monetary damages, injunctive relief, and a declaratory judgment against Mr. Nynens and the N&W Group. The litigation is in its early stages.

Previously, the Company had received unsolicited acquisition proposals from the N&W Group to acquire all of the outstanding shares of common stock of the Company. The Company received the most recent unsolicited acquisition proposal from the N&W Group on December 10, 2019, and that proposal expired on its own terms on December 16, 2019. Prior to that, Mr. Nynens entered into an agreement with the N&W Group on November 27, 2019, granting SKK an irrevocable proxy to vote his shares of our common stock in favor of any acquisition proposal by SKK, against any third-party acquisition, and as directed by SKK with respect to the election of directors nominated by persons other than the Company. On December 20, 2019, Mr. Nynens nominated four individuals for election to our Board of Directors at the 2020 annual meeting of stockholders.

The Company and its Board of Directors have hired financial advisors and legal counsel to advise on resolution of the matters. The ultimate outcome of these matters and related costs cannot be determined at this time, and accordingly no provision has been recorded for estimated expenses to resolve the matter.

We are involved from time to time in routine legal matters and other claims incidental to our business. We review outstanding claims and proceedings internally and with external counsel as necessary to assess probability and amount of potential loss. There are no other material legal proceedings to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Shares of our Common Stock, par value $0.01, trade on The NASDAQ Global Market under the symbol "WSTG".

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information, as of December 31, 2019, regarding securities authorized for issuance upon the exercise of stock options and vesting of restricted stock under all the Company's equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Vesting of Stock Awards	(b) Weighted Average Exercise Price of Outstanding Stock Awards	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Stockholders (1)	63,922	$ 14.94	513,647
Total	63,922	$ 14.94	513,647

(1) Includes the 2012 Plan. For plan details, please refer to Note 8 in the Notes to our Consolidated Financial Statements.

Dividends

In each of 2019 and 2018, we declared dividends totaling $0.68 per share on our Common Stock. The payment of future dividends 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. There can be no assurance that we will continue to pay comparable cash dividends in the future.

Shareholder Information

As of February 20, 2020, there were approximately 103 record holders of our Common Stock. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by brokerage firms and clearing agencies.

Purchases of Equity Securities

During the fourth quarter of 2019, we repurchased shares of our Common Stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid Per Share	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (3)
October 1, 2019 - October 31, 2019	—	$ —	—	$ —	547,488
November 1, 2019 - November 30, 2019	1,522 (1)	$ 14.37	—	$ —	547,488
December 1, 2019 - December 31, 2019	—	$ —	—	$ —	547,488
Total	1,522	$ 14.37	—	$ —	547,488

(1) Includes 1,522 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of Restricted Stock. These shares are not included in the Common Stock repurchase program referred to in footnote (3) below.

(2) Average price paid per share reflects the closing price of the Company's Common Stock on the business date the shares were surrendered by the employee stockholder to satisfy individual tax withholding obligations upon vesting of Restricted Stock or the price of the Common Stock paid on the open market purchase, as applicable.

(3) On December 3, 2014, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. On February 2, 2017, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. The Company expects to purchase shares of its Common Stock from time to time in the market or otherwise subject to market conditions. The Common Stock repurchase program does not have an expiration date.

Item 6. Selected Financial Data

The following tables set forth, for the periods indicated, selected consolidated financial and other data for Wayside Technology Group, Inc. and its Subsidiaries. You should read the selected consolidated financial and other data below in conjunction with our Consolidated Financial Statements and the related notes in Part II, Item 8, and with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K. The following table includes Non-US GAAP measures, for which we provided a reconciliation of net income excluding separation expenses, net of taxes to net income, as well as the related amounts per share, which are the most directly comparable measure of accounting principles generally accepted in the United States of America ("US GAAP"), in the footnotes below. We use net income excluding separation expense as a supplemental measure of our performance to gain insight into comparison of our businesses profitability when compared to the prior year. Our use of net income excluding separation expenses, net of taxes has limitations, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate separation expenses net of taxes, or similarly titled measures differently, which may reduce their usefulness as comparative measures.

The selected financial data for the years ended December 31, 2019, 2018, 2017 and 2016 reflects our adoption of ASC 606 – Revenue from Contracts with Customers ("ASC 606"). Effective January 1, 2018, we adopted ASC 606 using the full retrospective method, which requires us to recast our historical financial information to reflect the adoption as of the earliest reporting period presented, which was for the year ended December 31, 2016. There was no impact to gross profit from the adoption. We have not adjusted the selected financial data for the year ended December 31, 2015.

Year Ended December 31,
(Amounts in thousands, except per share amounts)

	Reflects Impact of ASC 606 Adoption				
	2019	**2018**	**2017**	**2016**	**2015**
Consolidated Statement of Operations Data:					
Net sales - (1)	$ 208,759	$ 181,444	$ 160,567	$ 164,609	$ 382,090
Cost of sales	178,792	154,524	133,491	137,278	355,517
Gross profit	29,967	26,920	27,076	27,331	26,573
Selling, general and administrative expenses	21,401	20,319	19,263	18,715	18,063
Separation expenses	100	2,446	—	—	—
Income from operations	8,466	4,155	7,813	8,616	8,510
Other income, net	582	962	740	317	348
Income before provision for income taxes	9,048	5,117	8,553	8,933	8,858
Provision for income taxes	2,261	1,579	3,491	3,032	3,028
Net income	$ 6,787	$ 3,538	$ 5,062	$ 5,901	$ 5,830
Net income per common share					
Basic	$ 1.51	$ 0.78	$ 1.13	$ 1.25	$ 1.22
Diluted	$ 1.51	$ 0.78	$ 1.13	$ 1.25	$ 1.22
Weighted average common shares outstanding:					
Basic	4,421	4,358	4,299	4,503	4,634
Diluted	4,421	4,358	4,299	4,503	4,634
Net income excluding separation expenses, net of tax (Non-GAAP) - (2)	$ 6,863	$ 5,546	$ 5,062	$ 5,901	$ 5,830
Diluted earnings per share excluding separation expenses, net of tax (Non-GAAP) - (3)	$ 1.52	$ 1.23	$ 1.13	$ 1.25	$ 1.22

(1) Effective January 1, 2018, we adopted ASC 606 using the full retrospective method, which requires us to recast our historical financial information to reflect the adoption as of the earliest reporting period presented, which was for the year ended December 31, 2016. There was no impact to gross profit from the adoption. We have not adjusted the selected financial data for the year ended December 31, 2015.

(2) For the year ended December 31, 2019, excludes $0.1 million in expenses related to a separation and release agreement the Company entered into with its former President, Chief Executive Officer and member of the Board on May 24, 2019, consisting of $0.1 million in cash payments. For the year ended December 31, 2018, excludes $2.0 million in expenses related to a separation and release agreement the Company entered into with its former Chairman and Chief Executive Officer upon his resignation on May 11, 2018, consisting of $1.7 million in accelerated vesting of restricted stock and $0.8 million in cash payments, net of $0.4 million in tax benefits. See table in Part II, Item 7 of this Form 10K for reconciliation of net income to net income excluding separation expense, net of tax (Non-GAAP).

(3) For the year ended December 31, 2019, excludes $0.01 per share in expenses related to a separation and release agreement the Company entered into with its former President, Chief Executive Officer and member of the Board on May 24, 2019, consisting of $0.01 per share of separation expenses. For the year ended December 31, 2018, excludes $0.45 per share in expenses related to a separation and release agreement the Company entered into with its former Chairman of the Board, President and Chief Executive Officer on May 11, 2018, consisting of $0.55 per share of separation expenses, net of $0.10 per share in tax benefits.

The selected financial data as of December 31, 2019, 2018 and 2017 reflects our adoption of ASC 606. Effective January 1, 2018, we adopted ASC 606 using the full retrospective method, which requires us to recast our historical financial information to reflect the adoption as of the earliest reporting period presented, which was as of December 31, 2017. We have not adjusted the selected financial data as of December 31, 2016 and 2015.

December 31,
(Amounts in thousands, except per share amounts)

	2019	2018	2017	2016	2015
Balance Sheet Data:					
Cash and cash equivalents	$ 14,984	$ 14,883	$ 5,530	$ 13,524	$ 23,823
Working capital	42,802	36,214	29,859	24,477	30,568
Total assets	126,281	107,971	104,690	113,698	94,082
Total stockholders' equity	45,256	40,573	38,712	37,611	38,659

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto. This discussion and analysis contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain risks and uncertainties, including those set forth under the heading "Risk Factors" and elsewhere in this report.

Overview

Our Company is an IT channel company, primarily selling software and other third-party IT products and services through two reportable operating segments. Through our "Lifeboat Distribution" segment we sell products and services to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide, who in turn sell these products to end users. Through our "TechXtend Segment" we act as a value-added reseller, selling computer software and hardware developed by others and provide technical services directly to end user customers in the USA and Canada. We offer an extensive line of products from leading software vendors and tools for virtualization/cloud computing, security, networking, storage and infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware. We market these products through creative marketing communications, including our web sites, local and on-line seminars, webinars, social media, direct e-mail, and printed materials.

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

Factors Influencing Our Financial Results

We derive most of our net sales though 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, product lifecycle competitive, and demand characteristics of the products which we are authorized to distribute. 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 have historically declined due to competition and changes in product mix towards products where no delivery of a physical product is required. In addition, we grant discounts, allowances, and rebates to certain customers, which may vary from period to period, based on volume, payment terms and other criteria. To date, we have been able to implement cost efficiencies such as the use of drop shipments, electronic ordering ("EDI") and other capabilities to be able to operate our business profitably as gross margins have declined. We evaluate the profitability of our business based on return on invested capital and effective margin (see management's discussion and analysis below).

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

The Company's sales, gross profit and results of operations have fluctuated and are expected to continue to fluctuate on a quarterly basis as a result of a number of factors, including but not limited to: the condition of the software industry in general, shifts in demand for software products, pricing, industry shipments of new software products or upgrades, fluctuations in merchandise returns, adverse weather conditions that affect response, distribution or shipping, shifts in the timing of holidays and changes in the Company's product offerings. The Company's operating expenditures are based on sales forecasts. If sales do not meet expectations in any given quarter, operating results may be materially adversely affected.

Dividend Policy and Share Repurchase Program. Historically we have sought to return value to investors through the payment of quarterly dividends and share repurchases. Total dividends paid and the dollar value of shares repurchased were $3.1 and $0.1 million for the year ended December 31, 2019, respectively, and $3.1 and $1.0 million for the year ended December 31, 2018, respectively. The payment of future dividends 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.

Financial Overview

Net sales increased 15%, or $27.4 million, to $208.8 million for the year ended December 31, 2019, compared to $181.4 million for the same period in 2018. Gross profit increased 11%, or $3.1 million, to $30.0 million for the year ended December 31, 2019, compared to $26.9 million for the same period in 2018. Selling, general and administrative ("SG&A") expenses increased 5%, or $1.1 million, to $21.4 million for the year ended December 31, 2019, compared to $20.3 million for the same period in 2018. Separation expenses were $0.1 million for the year ended December 31, 2019 compared to $2.4 million for the same period in 2018. Net income increased 92%, or $3.2 million, to $6.8 million for the year ended December 31, 2019 compared to $3.5 million for the same period in 2018. Weighted Average diluted shares outstanding increased by 1% from the prior year. Income per diluted share increased 94% to $1.51 for the year ended December 31, 2019 compared to $0.78 for the same period in 2018.

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 generally accepted accounting principles in the United States of America ("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, investments, intangible assets, income taxes, stock-based compensation, contingencies and litigation.

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

The Company believes the following critical accounting policies used in the preparation of its Consolidated Financial Statements affect its more significant judgments and estimates.

Revenue

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

Allowance for Accounts Receivable

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

Accounts Receivable – Long Term

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

Inventory Allowances

The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-offs may be required.

Income Taxes

The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance related to deferred tax assets. In the event the Company 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 make certain assumptions in order to value and expense our various share-based payment awards. In connection with our restricted stock programs we record the 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.

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

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 ASU 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, 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 this 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 December 2019, the FASB issued ASU 2019-12, *"Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"* as part of its initiative to reduce complexity in the accounting standards. The standard eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The standard also clarifies and simplifies other aspects of the accounting for income taxes. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact that this guidance will have upon its financial position and results of operations, if any.

Results of Operations

The following table sets forth for the years indicated the percentage of net sales represented by selected items reflected in the Company's Consolidated Statements of Earnings. The year-to-year comparison of financial results is not necessarily indicative of future results:

	Year ended December 31,	
	2019	2018
Net sales	100 %	100 %
Cost of sales	85.6	85.2
Gross profit	14.4	14.8
Selling, general and administrative expenses	10.3	11.2
Separation expenses	0.0	1.3
Income from operations	4.1	2.3
Other income	0.3	0.5
Income before income taxes	4.3	2.8
Income tax provision	1.1	0.9
Net income	3.3 %	1.9 %

Non-GAAP Financial Measures

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

	Year ended December 31,	
Reconciliation of net sales to adjusted gross billings (Non-GAAP):	2019	2018
Net sales	$ 208,759	$ 181,444
Costs of sales related to Software – security and highly interdependent with support and maintenance, support or other services	392,264	328,506
Adjusted gross billings	$ 601,023	$ 509,950

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

Reconciliation of net income to net income excluding separation expenses, net of tax (Non-GAAP):	**Year ended December 31, 2019**	**2018**
Net income	$ 6,787	$ 3,538
Separation expenses	100	2,446
Income tax benefits related to separation expenses	(24)	(438)
Net income excluding separation expenses, net of taxes	$ 6,863	$ 5,546

Diluted earnings per share reconciled to diluted earnings per share excluding separation expenses, net of taxes (Non-GAAP):	**Year ended December 31, 2019**	**2018**
Diluted earnings per share	$ 1.51	$ 0.78
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	$ 1.52	$ 1.23

We define net income excluding separation expenses, net of taxes, as net income, plus separation expenses, less the income tax benefit attributable to the separation expenses. We provided a reconciliation of net income excluding separation expenses, net of taxes, to net income, as well as the related amounts per share, which are the most directly comparable US GAAP measures. We use net income excluding separation expense, net of taxes as a supplemental measure of our performance to gain insight into comparison of our businesses profitability when compared to the prior year. Our use of net income excluding separation expenses, net of taxes has limitations, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate separation expenses, separation expenses net of taxes, or similarly titled measures differently, which may reduce their usefulness as comparative measures.

Net income reconciled to adjusted EBITDA:	**Year ended December 31, 2019**	**2018**
Net income	$ 6,787	$ 3,538
Provision for income taxes	2,261	1,579
Depreciation and amortization	488	482
Interest expense	58	37
EBITDA	9,594	5,636
Share-based compensation	759	1,108
Separation expenses	100	2,446
Adjusted EBITDA	$ 10,453	$ 9,190

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

Key Financial Metrics

	Year ended December 31,	
	2019	2018
Net sales	$ 208,759	$ 181,444
Adjusted gross billings (Non-GAAP)	$ 601,023	$ 509,950
Gross profit	$ 29,967	$ 26,920
Gross profit - Lifeboat Distribution	$ 26,773	$ 23,441
Gross profit - TechXtend	$ 3,194	$ 3,479
Net income	$ 6,787	$ 3,538
Net income excluding Separation expense (Non-GAAP)	$ 6,863	$ 5,546
Adjusted EBITDA (Non-GAAP)	$ 10,453	$ 9,190
Gross margin % - Adjusted gross billings (Non-GAAP)	5.0%	5.3%
Effective margin % - Adjusted EBITDA (Non-GAAP)	34.8%	34.1%

We consider gross profit growth and effective margin to be key metrics in evaluating our business. During the year ended December 31, 2019, gross profit increased 11%, or $3.1 million, to $30.0 million compared to $26.9 million for the same period in 2018 while effective margin increased 70 basis points to 34.8% compared to 34.1% for the same period in 2018, reflecting the scalability in our business model.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Net Sales

Net sales for the year ended December 31, 2019 increased 15%, or $27.3 million, to $208.8 million compared to $181.4 million for the same period in 2018.

Adjusted gross billings, a non-GAAP financial measure, for the year ended December 31, 2019 increased 18%, or $91.0 million, to $601.0 million compared to $510.0 million for the same period in 2018.

Net sales in our Lifeboat Distribution segment for the year ended December 31, 2019 increased 18%, or $30.0 million, to $193.6 million compared to $163.6 million for the same period in 2018. The increase in our Lifeboat Distribution segment was primarily due to growth in sales penetration for several of our more significant product lines, as well as incremental sales from several new product lines.

Adjusted gross billings, a non-GAAP financial measure, for the Lifeboat Distribution segment for the year ended December 31, 2019 increased 23%, or $105.7 million, to $575.4 million compared to $469.7 million for the same period in 2018.

Net sales in our TechXtend segment for the year ended December 31, 2019 decreased 15%, or $2.7 million, to $15.2 million compared to $17.9 million for the prior year. Sales in our TechXtend segment may vary significantly from year to year based on the timing of IT spending decisions by our larger customers and internal capital allocation decisions regarding the amount of capital we allocate to the extended payment program.

Adjusted gross billings, a non-GAAP financial measure, for the TechXtend segment for the year ended December 31, 2019 decreased 36%, or $14.7 million, to $25.6 million compared to $40.3 million for the same period in 2018.

During the year ended December 31, 2019, we relied on two key customers for a total of 42% of our total net sales. One major customer accounted for 26% and the other for 16%, of our total net sales during the year ended December 31, 2019. These same customers accounted for 43% and 12%, of total net accounts receivable as of December 31, 2019.

Gross Profit

Gross profit for the year ended December 31, 2019 increased 11%, or $3.1 million, to $30.0 million compared to $26.9 million for the same period in 2018. Lifeboat Distribution segment gross profit for the year ended December 31, 2019 increased 14%, or $3.4 million, to $26.8 million compared to $23.4 million for the same period in 2018 due to higher net sales discussed above, which were partially offset by the impact of lower gross margin as a percentage of net sales. TechXtend segment gross profit for the year ended December 31, 2019 decreased 8%, or $0.3 million, to $3.2 million compared to $3.5 million for the same period in 2018 due to the decreased level of net sales discussed above.

Vendor rebates and discounts for the year ended December 31, 2019 were $3.3 million compared to $2.4 million for the same period in 2018. Vendor rebates are dependent on reaching certain targets set by our vendors. The Company monitors vendor rebate levels, competitive pricing, and gross profit margins carefully. We anticipate that price competition in our market will continue in both of our business segments.

Selling, General and Administrative Expenses

SG&A expenses for the year ended December 31, 2019 increased 5%, or $1.1 million, to $21.4 million, compared to $20.3 million for the same period in 2018. The increase in SG&A expenses is primarily due to increased employee related costs including salary, commission and bonus expense to support the increased sales on existing and new vendor lines, partially offset by decreased stock compensation expense. SG&A expenses as a percentage of net sales were 10.3% for the year ended December 31, 2019 compared to 12.0% for the same period in 2018.

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 information technology and marketing, while monitoring SG&A expenses closely.

Separation Expense

Separation expense for the year ended December 31, 2019 was $0.1 million related to the resignation of our former President, Chief Executive Officer and member of the Board. Separation expense for the year ended December 31, 2018 was $2.4 million related to the resignation of our former Chairman, President and Chief Executive Officer, consisting of a $1.7 million charge for accelerated vesting of restricted stock and $0.8 million in cash payments to be made over twelve months.

Income Taxes

For the year ended December 31, 2019, the Company recorded a provision for income taxes of $2.3 million, or 25.0% of income before taxes, compared to $1.6 million, or 30.9% of income before taxes for the same period in 2018.

Liquidity and Capital Resources

Our cash and cash equivalents increased by $0.1 million to $15.0 million at December 31, 2019 from $14.9 million at December 31, 2018. The increase in cash was primarily the result of cash provided by operating activities of $3.2 million offset, in part, by use of cash for dividends of $3.1 million.

Net cash provided by operating activities for the year ended December 31, 2019 was $3.2 million, comprised of net income adjusted for non-cash items of $7.9 million, less cash used in changes in operating assets and liabilities of $4.7 million.

The net cash used in changes in operating assets and liabilities in 2019 were the result of increases in accounts receivables due to increased sales to a large customer with longer than average payment terms, partially offset by increases in accounts payable required to support the business and utilization of a prior year vendor prepayment as part of a distribution agreement.

Net cash provided by operating activities for the year ended December 31, 2018 was $13.9 million, comprised of net income adjusted for non-cash items of $5.9 million, plus cash provided by changes in operating assets and liabilities of $8.0 million.

The net cash provided by changes in operating assets and liabilities in 2018 was primarily due to a decrease in net working capital (accounts receivable, inventory, and vendor prepayments less accounts payable) required to support our business. The decreased working capital is primarily driven by $3.7 million utilization in 2018 of a prior year vendor prepayment as part of a distribution agreement. Our accounts receivable – long term decreased by approximately $4.3 million during 2018 due to collection of receivables with extended payment term sales.

Net cash used in investing activities for the year ended December 31, 2019 was $0.1 million compared to $0.3 million for the same period in 2018. Net cash used in investing activities primarily represented capital expenditures for equipment and leasehold improvements.

Net cash used in financing activities for the year ended December 31, 2019 was $3.2 million, which was comprised of $3.1 million of dividend payments on our Common Stock and $0.1 million for the purchases of treasury shares of our Common Stock.

Net cash used in financing activities for the year ended December 31, 2018 of $4.1 million was comprised of $3.1 million of dividend payments on our Common Stock, and $1.0 million for the purchases of treasury shares of our Common Stock.

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 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 is authorized to purchase 547,488 shares of Common Stock as of December 31, 2019. The Common Stock repurchase program does not have an expiration date.

As of December 31, 2019, we held 778,807 shares of our Common Stock in treasury at an average cost of $16.99 per share. As of December 31, 2018, we held 788,006 shares of our Common Stock in treasury at an average cost of $17.06 per share. We intend to hold the repurchased shares in treasury for general corporate purposes, including issuances under various stock plans.

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, Second Amended and Restated Revolving Credit Loan Note, Second Amended and Restated Security Agreement and Second Amended and Restated Pledge and Security Agreement. The Credit Facility, which is 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.

At December 31, 2019 and 2018, the Company had no borrowings outstanding under the Credit Facility. The Company incurred $0.1 million of interest expense, related to the Credit Facility for the years ended December 31, 2019 and 2018, respectively.

Our current and anticipated use of cash and cash equivalents is to fund working capital, operational expenditures, the stock repurchase program and dividends, if any, declared by the Board of Directors.

Subsequent Events

By letter dated January 22, 2020, a shareholder of the Company demanded that the Board of Directors investigate and bring an action against the Company's former Chairman, President and Chief Executive Officer, Simon Nynens, for his breaches of certain restrictive covenants contained in the separation agreement he entered into with the Company on or about May 11, 2018. Following receipt of the shareholder demand, the Company filed a lawsuit against Mr. Nynens, Shepherd Kaplan Krochuk, LLC ("SKK"), and North & Webster SSG, LLC ("N&W," and together with SKK, the "N&W Group") on February 14, 2020, in the Superior Court of New Jersey Monmouth County. The Company's complaint asserts claims against Mr. Nynens for his breaches of his separation agreement with the Company and claims for tortious interference against the N&W Group for inducing Mr. Nynens to commit those breaches. In connection with its claims, the Company seeks monetary damages, injunctive relief, and a declaratory judgment against Mr. Nynens and the N&W Group. The litigation is in its early stages.

Previously, the Company had received unsolicited acquisition proposals from the N&W Group to acquire all of the outstanding shares of common stock of the Company. The Company received the most recent unsolicited acquisition proposal from the N&W Group on December 10, 2019, and that proposal expired on its own terms on December 16, 2019. Prior to that, Mr. Nynens entered into an agreement with the N&W Group on November 27, 2019, granting SKK an irrevocable proxy to vote his shares of our common stock in favor of any acquisition proposal by SKK, against any third-party acquisition, and as directed by SKK with respect to the election of directors nominated by persons other than the Company. On December 20, 2019, Mr. Nynens nominated four individuals for election to our Board of Directors at the 2020 annual meeting of stockholders.

The Company and its Board of Directors have hired financial advisors and legal counsel to advise on resolution of the matters. The ultimate outcome of these matters and related costs cannot be determined at this time, and accordingly no provision has been recorded for estimated expenses to resolve the matter.

Contractual Obligations as of December 31, 2019

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

Foreign Exchange

The Company's foreign business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. We are subject to fluctuations primarily in the Canadian and Euro Dollar-to-U.S. Dollar exchange rate.

Off-Balance Sheet Arrangements

As of December 31, 2019, we did not have any off-balance sheet arrangements, as defined in Item 303 (a)(4)(ii) of SEC Regulation S-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Item 8. Financial Statements and Supplementary Data

See Index to Consolidated Financial Statements at Item 15(a).

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures", as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of various members of our management, including our Company's Chief Executive Officer (principal executive officer), Vice President and Chief Financial Officer (principal financial officer), and Vice President and Chief Accounting Officer (principal accounting officer). Based upon that evaluation, the Company's Chief Executive Officer, 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 SEC's rules and forms and is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, and effected by the Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with US GAAP. Internal control over financial reporting includes maintaining records in reasonable detail that accurately and fairly reflect our transactions and disposition of assets; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with US GAAP; providing reasonable assurance that receipts and expenditures of the Company, are made in accordance with authorizations of management and directors of the Company; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that, owing to changes in conditions, controls may become inadequate, or that the degree of compliance with policies or procedures may deteriorate.

Management, with the participation of our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required hereunder, with the exception of the information relating to the Company's Code of Ethical Conduct that is presented in Part I under the heading "Available Information," is incorporated by reference herein from our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A not later than April 30, 2020 (the "Definitive Proxy Statement") under the sections captioned "Election of Directors," "Corporate Governance" and "Delinquent Section 16 (a) Reports."

Item 11. Executive Compensation

The information required hereunder is incorporated by reference herein from the Definitive Proxy Statement under the sections captioned “Executives and Executive Compensation” and “Corporate Governance.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required hereunder is incorporated by reference herein from the Definitive Proxy Statement under the sections captioned “Equity Compensation Plan Information — Securities Authorized for Issuance under Equity Compensation Plans” and “Security Ownership of Certain Beneficial Owners and Management.”

Item 13. Certain Relationships and Related Party Transactions, and Director Independence

The information required hereunder is incorporated by reference herein from the Definitive Proxy Statement under the sections captioned “Executives and Executive Compensation,” “Corporate Governance” and “Transactions with Related Persons.”

Item 14. Principal Accounting Fees and Services

The information required hereunder is incorporated by reference herein from the Definitive Proxy Statement under the section captioned “Ratification of Appointment of Independent Registered Public Accounting Firm.”

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Report:

1. **Consolidated Financial Statements** (See Index to Consolidated Financial Statements on page F-1 of this report);

2. **Financial Statement Schedule**:

   Schedule II Valuation and Qualifying Accounts

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or notes thereto.

3. **Exhibits Required by Regulation S-K, Item 601:**

Exhibit No.	Description of Exhibit
3.1	Form of Amended and Restated Certificate of Incorporation of the Company. (1)
3.1(a)	Certificate of Amendment of Restated Certificate of Incorporation of the Company. (2)
3.2	Amended and Restated By-Laws of the Company. (1)
4.1	Specimen of Common Stock Certificate. (1)
4.3	Description of Securities. (14)

Exhibit No.	Description of Exhibit
10.1	Second Amended and Restated Revolving Credit Loan Agreement, dated November 15, 2017, by and among Wayside Technology Group, Inc., Lifeboat Distribution, Inc., Techxtend, Inc., Programmer's Paradise, Inc., and ISP International Software Partners, Inc., as Co-Borrowers, and Citibank, N.A., as Lender. (7)
10.2	Second Amended and Restated Credit Loan Note, dated November 15, 2017, by and among Wayside Technology Group, Inc., Lifeboat Distribution, Inc., Techxtend, Inc., Programmer's Paradise, Inc., and ISP International Software Partners, Inc., as Co-Borrowers, and Citibank, N.A., as Lender. (7)
10.3	Second Amended and Restated Security Agreement, dated November 15, 2017, by and among Wayside Technology Group, Inc., Lifeboat Distribution, Inc., Techxtend, Inc., Programmer's Paradise, Inc., and ISP International Software Partners, Inc., as Debtors, and Citibank, N.A., as Lender. (7)
10.4	Second Amended and Restated Pledge and Security Agreement, dated November 15, 2017, by and between Wayside Technology Group, Inc., as Grantor, and Citibank, N.A., as Secured Party. (7)
10.5	Code of Ethics and Business Conduct. (8)
10.6	Employment agreement dated January 15, 2020 between the Company and Dale Foster. (11)
10.7	Employment agreement dated January 2, 2018 between the Company and Charles Bass. (9)
10.10	Form of Officer and Director Indemnification Agreement. (10)
10.11	2012 Stock-Based Compensation Plan. (6)
10.13	Employment Agreement, dated January 12, 2006, between the Company and Simon F. Nynens. (4)
10.14	Offer Letter, dated January 6, 2003, from the Company to Vito Legrottaglie. (5)
10.28	Form of Non-Qualified Stock Option Agreement. (3)
21.1	Subsidiaries of the Registrant. (14)
23.1	Consent of BDO USA, LLP. (14)
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Dale Foster, the Chief Executive Officer of the Company. (14)
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Michael Vesey, the Vice President and Chief Financial Officer of the Company. (14)
31.3	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 of the Company. (14)
32.1	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Dale Foster, the Chief Executive Officer of the Company. (13)
32.2	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 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 of the Company. (13)

Exhibit No.	Description of Exhibit
32.3	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 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 of the Company. (13)
99.1	Insider Trading Policy. (12)
101	The following financial information from Wayside Technology Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on March 4, 2020, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Consolidated Balance Sheets, (2) Consolidated Statements of Earnings, (3) Consolidated Statements of Comprehensive Income, (4) Consolidated Statements of Stockholders' Equity, (5) Consolidated Statements of Cash Flows, and (6) the Notes to the Consolidated Financial Statements.

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

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

(3) Incorporated by reference to exhibits of the same number filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007 filed on March 13, 2008.

(4) Incorporated by reference to Exhibit 10.43 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 filed on May 12, 2006.

(5) Incorporated by reference to exhibits of the same number filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 filed on May 15, 2007.

(6) Incorporated by reference to Exhibit A of the Registrant's Definitive Annual Meeting Proxy Statement filed on April 24, 2012.

(7) Incorporated by reference to the Registrant's Form 8-K filed on November 20, 2017.

(8) Incorporated by reference to the Registrant's Form 8-K filed on December 8, 2017.

(9) Incorporated by reference to exhibits of the same number filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 15, 2018.

(10) Incorporated by reference to exhibits of the same number filed with the Registrant's Quarterly Report on Form 10-Q for the Period Ended March 31, 2017 filed May 5, 2017.

(11) Incorporated by reference to the Registrant's Form 8-K filed on January 21, 2020.

(12) Incorporated by reference to exhibits of the same number filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2018 filed on March 18, 2019.

(13) Furnished herewith.

(14) Filed herewith.

(b) The exhibits required by Item 601 of Regulation S-K are reflected above in Section (a) 3. of this Item.

(c) The financial statement schedule is included as reflected in Section (a) 2. of this Item.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in Eatontown, New Jersey, on March 4, 2020.

WAYSIDE TECHNOLOGY GROUP, INC.

By: /s/ Dale Foster
Dale Foster, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Dale Foster Dale Foster	Chief Executive Officer and Director (Principal Executive Officer)	March 4, 2020
/s/ Michael Vesey Michael Vesey	Vice President and Chief Financial Officer (Principal Financial Officer)	March 4, 2020
/s/ Kevin Scull Kevin T. Scull	Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 4, 2020
/s/ Jeffrey Geygan Jeffrey R. Geygan	Chairman of the Board of Directors	March 4, 2020
/s/ Diana Kurty Diana Kurty	Director	March 4, 2020
/s/ Mike Faith Mike Faith	Director	March 4, 2020
/s/ John McCarthy John McCarthy	Director	March 4, 2020
/s/ Andrew Bryant Andrew Bryant	Director	March 4, 2020
/s/ Ross Crane Ross Crane	Director	March 4, 2020

Items 8 and 15(a)

Wayside Technology Group, Inc. and Subsidiaries

Index to Consolidated Financial Statements and Schedule

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Wayside Technology Group, Inc. and Subsidiaries
Eatontown, New Jersey

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Wayside Technology Group, Inc. and Subsidiaries (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2019, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, effective on January 1, 2019, the Company changed its method of accounting for leases due to the adoption of Accounting Standards Codification Topic 842, Leases.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2018.

Woodbridge, New Jersey
March 4, 2020

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

	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,984	$ 14,883
Accounts receivable, net of allowances of $765 and $785, respectively	100,987	81,351
Inventory, net	2,760	1,473
Vendor prepayments	100	3,172
Prepaid expenses and other current assets	2,718	1,988
Total current assets	121,549	102,867
Equipment and leasehold improvements, net	1,215	1,588
Right-of-use assets, net	1,792	—
Accounts receivable-long-term, net	1,358	3,156
Other assets	111	215
Deferred income taxes	256	145
Total assets	$ 126,281	$ 107,971
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 78,364	$ 66,653
Lease liability, current portion	383	—
Total current liabilities	78,747	66,653
Lease liability, net of current portion	2,189	—
Non-current liabilities	89	745
Total liabilities	81,025	67,398
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 10,000,000 shares authorized; 5,284,500 shares issued: 4,505,693 and 4,496,494 shares outstanding, respectively	53	53
Additional paid-in capital	32,874	32,392
Treasury stock, at cost, 778,807 and 788,006 shares, respectively	(13,256)	(13,447)
Retained earnings	26,715	22,994
Accumulated other comprehensive loss	(1,130)	(1,419)
Total stockholders' equity	45,256	40,573
Total liabilities and stockholders' equity	$ 126,281	$ 107,971

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

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

	Year ended December 31, 2019	Year ended December 31, 2018
Net sales	$ 208,759	$ 181,444
Cost of sales	178,792	154,524
Gross profit	29,967	26,920
Selling, general, and administrative expenses	21,401	20,319
Separation expenses	100	2,446
Income from operations	8,466	4,155
Other income:		
Interest, net	500	907
Foreign currency transaction gain	82	55
Income before provision for income taxes	9,048	5,117
Provision for income taxes	2,261	1,579
Net income	$ 6,787	$ 3,538
Income per common share-Basic	$ 1.51	$ 0.78
Income per common share-Diluted	$ 1.51	$ 0.78
Weighted average common shares outstanding —Basic	4,421	4,358
Weighted average common shares outstanding — Diluted	4,421	4,358
Dividends paid per common share	$ 0.68	$ 0.68

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

Wayside Technology Group, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(Amounts in thousands)

	Year ended December 31,	
	2019	**2018**
Net income	$ 6,787	$ 3,538
Other comprehensive income (loss):		
Foreign currency translation adjustments	289	(506)
Other comprehensive income (loss)	289	(506)
Comprehensive income	$ 7,076	$ 3,032

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

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

	Common Stock		Additional Paid-In	Treasury		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Shares	Amount	Earnings	(Loss) Income	Total
Balance at January 1, 2018	5,284,500	53	31,257	829,671	(14,207)	22,522	(913)	38,712
Net income	—	—	—	—	—	3,538	—	3,538
Translation adjustment	—	—	—	—	—	—	(506)	(506)
Dividends paid	—	—	—	—	—	(3,066)	—	(3,066)
Share-based compensation expense	—	—	2,769	—	—	—	—	2,769
Restricted stock grants (net of forfeitures)	—	—	(1,634)	(115,824)	1,799	—	—	165
Treasury shares repurchased	—	—	—	74,159	(1,039)	—	—	(1,039)
Balance at December 31, 2018	5,284,500	53	32,392	788,006	(13,447)	22,994	(1,419)	40,573
Net income	—	—	—	—	—	6,787	—	6,787
Translation adjustment	—	—	—	—	—	—	289	289
Dividends paid	—	—	—	—	—	(3,066)	—	(3,066)
Share-based compensation expense	—	—	759	—	—	—	—	759
Restricted stock grants (net of forfeitures)	—	—	(277)	(16,375)	277	—	—	—
Treasury shares repurchased	—	—	—	7,176	(86)	—	—	(86)
Balance at December 31, 2019	5,284,500	$ 53	$ 32,874	778,807	$ (13,256)	$ 26,715	$ (1,130)	$ 45,256

The accompanying notes are an integral part of the consolidated financial statements

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

	Year ended December 31, 2019	2018
Cash flows from operating activities		
Net income	$ 6,787	$ 3,538
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization expense	488	482
Benefit from doubtful accounts receivable	—	(75)
Deferred income tax benefit	(111)	(7)
Share-based compensation expense	759	2,769
Loss on disposal of fixed assets	3	17
Amortization of discount on accounts receivable	(457)	(869)
Amortization of right-of-use assets	370	—
Changes in operating assets and liabilities:		
Accounts receivable	(17,134)	1,538
Inventory	(1,284)	1,312
Prepaid expenses and other current assets	(724)	(280)
Vendor prepayments	3,072	3,665
Accounts payable and accrued expenses	11,636	1,841
Lease liability, net	(336)	
Other assets and liabilities	180	(30)
Net cash and cash equivalents provided by operating activities	3,249	13,901
Cash flows from investing activities		
Purchase of equipment and leasehold improvements	(106)	(266)
Net cash and cash equivalents used in investing activities	(106)	(266)
Cash flows from financing activities		
Purchase of treasury stock	(86)	(1,039)
Borrowings under revolving credit facility	—	10,000
Repayments of borrowings under revolving credit facility	—	(10,000)
Dividends paid	(3,066)	(3,066)
Net cash and cash equivalents used in financing activities	(3,152)	(4,105)
Effect of foreign exchange rate on cash and cash equivalents	110	(177)
Net increase in cash and cash equivalents	101	9,353
Cash and cash equivalents at beginning of period	14,883	5,530
Cash and cash equivalents at end of period	$ 14,984	$ 14,883
Supplementary disclosure of cash flow information:		
Income taxes paid	$ 2,394	$ 2,338

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

Wayside Technology Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Amounts in tables in thousands, except share and per share amounts)

Note 1. Description of Business

Wayside Technology Group, Inc. and Subsidiaries (the "Company"), was incorporated in Delaware in 1982. The Company distributes technology products developed by others to resellers who in turn sell to end customers worldwide. The Company also resells computer software and hardware developed by others and provides technical services directly to customers in the United States of America ("USA") and Canada. The Company also operates a sales branch in Europe to serve our customers in this region of the world. The Company offers an extensive line of products from leading software vendors and tools for virtualization/cloud computing, security, networking, storage & infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware.

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

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation and Operations

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make extensive use of certain estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The significant areas of estimation include but are not limited to accounting for allowance for doubtful accounts, sales returns, allocation of revenue in multiple deliverable arrangements, principal vs. agent considerations, discount rates applicable to long term receivables, inventory obsolescence, income taxes, depreciation, contingencies and stock-based compensation. Actual results could differ from those estimates.

Net Income Per Common Share

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

	Year ended December 31,	
	2019	2018
Numerator:		
Net income	$ 6,787	$ 3,538
Less distributed and undistributed income allocated to participating securities	130	118
Net income attributable to common shareholders	6,657	3,420
Denominator:		
Weighted average common shares (Basic)	4,421	4,358
Weighted average common shares including assumed conversions (Diluted)	4,421	4,358
Basic net income per share	$ 1.51	$ 0.78
Diluted net income per share	$ 1.51	$ 0.78

Cash Equivalents

The Company considers all liquid short-term investments with maturities of 90 days or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable principally represents amounts collectible from our customers. The Company performs ongoing credit evaluations of its customers but generally does not require collateral to support any outstanding obligation. From time to time, we sell accounts receivable to a financial institution on a non-recourse basis for cash, less a discount. The Company has no significant retained interests or servicing liabilities related to the accounts receivable sold. Proceeds from the sale of receivables approximated their discounted book value and were included in operating cash flows on the Consolidated Statements of Cash Flows.

Allowance for Accounts Receivable

We provide allowances for doubtful accounts related to accounts receivable for estimated losses resulting from the inability of our customers to make required payments. We take into consideration the overall quality and aging of the receivable portfolio along with specifically identified customer risks. If actual customer payment performance were to deteriorate to an extent not expected, 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.

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. Cumulative translation adjustments have been classified within accumulated other comprehensive income, which is a separate component of stockholders' equity in accordance FASB ASC Topic No. 220, "Comprehensive Income". Foreign currency transaction gains and losses are recorded as income or expenses as amounts are settled.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations in credit risk consist of cash and cash equivalents.

The Company's cash and cash equivalents, at times, may exceed federally insured limits. The Company's cash and cash equivalents are deposited primarily in banking institutions with global operations. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value as of December 31, 2019 and 2018, because of the relative short maturity of these instruments. The Company's accounts receivable-long-term is discounted to their present value at prevailing market rates at the time of sale which, approximates fair value as of December 31, 2019 and 2018.

Inventory

Inventory, consisting primarily of finished products held for resale, is stated at the lower of cost or net realizable value.

Vendor Prepayments

Vendor prepayments represents advance payments made to vendors to be applied against future purchases. Any amounts not expected to be utilized to apply against purchases within one year are reclassified to other long-term assets.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Equipment depreciation is calculated using the straight-line method over three to five years. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the assets or the related lease terms, whichever is shorter.

Accounts Receivable-Long-Term

Accounts receivable-long-term result from product sales with extended payment terms that are discounted to their present values at the 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.

Comprehensive Income

Comprehensive income consists of net income for the period and the impact of unrealized foreign currency translation adjustments. The foreign currency translation adjustments are not currently adjusted for income taxes as they relate to permanent investments in international subsidiaries.

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 of sales taxes collected from customers, which are subsequently remitted to governmental entities. 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.

Freight

The Company records freight billed to its customer as net sales and the related freight costs as cost of sales when the underlying product revenue is recognized. The Company does not consider shipping to be a separate performance obligation.

Stock-Based Compensation

The Company has stockholder-approved stock incentive plans for employees and directors. Stock-based compensation is recognized based on the grant date fair value and is recognized as expense on a straight-line basis over the requisite service period.

Treasury Stock

Treasury stock is accounted for at cost. Shares repurchased by the Company are held in treasury for general corporate purposes, including issuances under equity incentive plans. The reissuance of shares from treasury stock is based on the weighted average purchase price of the shares.

Separation Expenses

Separation expenses during the year ended December 31, 2019 consist of expenses related to cash payments made to the Company's former President, Chief Executive Officer and member of the Board pursuant to a separation agreement dated May 24, 2019. Separation expenses during the year ended December 31, 2018 consist of accelerated vesting of restricted stock and other cash payments made to the Company's former Chairman of the Board, President and Chief Executive Officer pursuant to a separation agreement dated May 11, 2018. See Note 14 for additional details.

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.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. This method also requires a valuation allowance against the net deferred tax asset if, based on the weighted available evidence, it is more likely than not that some or all the deferred tax assets will not be realized. The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense when assessed. The Company accounts for uncertainties in accordance with FASB ASC 740 "Income Taxes". This standard clarified the accounting for uncertainties in income taxes. The standard prescribes criteria for recognition and measurement of tax positions. It also provides guidance on derecognition, classification, interest and penalties, and disclosures related to income taxes associated with uncertain tax positions. The Company classifies all deferred tax asset or liabilities as non-current on the balance sheet in accordance with ASU 2015-17 which the Company has adopted.

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

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 ASU 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, 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 this 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 December 2019, the FASB issued ASU 2019-12, *"Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"* as part of its initiative to reduce complexity in the accounting standards. The standard eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The standard also clarifies and simplifies other aspects of the accounting for income taxes. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact that this guidance will have upon its financial position and results of operations, if any.

3. Revenue Recognition

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:

Net sales:	**Year ended December 31,**	
	2019	**2018**
Hardware, software and other products	$ 189,335	$ 164,870
Software - security & highly interdependent with support	7,186	6,527
Maintenance, support & other services	12,238	10,047
Net sales	$ 208,759	$ 181,444

See Note 12 for disaggregation of revenue by segment and geography.

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* in Note 2 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* below 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 December 31, 2019 and 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.

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

Right-of-use 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 right-of-use 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:

	Year ended December 31, 2019
Cash paid for operating lease liabilities	$ 460
Right-of-use assets obtained in exchange for new operating lease obligations (1)	$ 2,163
Weighted-average remaining lease term	7.2 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 ofASU 2016-02. No new operating leases commenced during the year ended December 31, 2019.

Maturities of lease liabilities as of December 31, 2019 were as follows:

2020	$ 438
2021	405
2022	414
2023	463
2024	473
Thereafter	1,100
	3,293
Less: imputed interest	(721)
Total lease liabilities	$ 2,572
Lease liabilities, current portion	383
Lease liabilities, net of current portion	2,189
Total lease liabilities	$ 2,572

5. Balance Sheet Detail

Equipment and leasehold improvements, net consist of the following:

	December 31, 2019	December 31, 2018
Equipment	$ 2,230	$ 2,146
Leasehold improvements	1,289	1,332
	3,519	3,478
Less accumulated depreciation and amortization	(2,304)	(1,890)
	$ 1,215	$ 1,588

Depreciation expense relating to equipment and leasehold improvements, net was $0.5 million during the years ended December 31, 2019 and 2018, respectively.

Accounts receivable – long term, net consist of the following:

	December 31, 2019	December 31, 2018
Total amount due from customer	$ 5,656	$ 11,169
Less: unamortized discount	(194)	(391)
Less: current portion included in accounts receivable	(4,104)	(7,622)
	$ 1,358	$ 3,156

Accounts payable and accrued expenses consist of the following:

	December 31, 2019	December 31, 2018
Trade accounts payable	$ 73,310	$ 62,751
Accrued expenses	5,054	3,902
	$ 78,364	$ 66,653

Accumulated other comprehensive loss consists of the following:

	December 31, 2019	December 31, 2018
Foreign currency translation adjustments	$ (1,130)	$ (1,419)
	$ (1,130)	$ (1,419)

6. Income Taxes

Deferred tax attributes resulting from differences between the tax basis of assets and liabilities and the reported amounts in the consolidated balance sheet are as follows:

	December 31, 2019	December 31, 2018
Deferred tax assets:		
Accruals and reserves	$ 383	$ 331
Deferred rent credit	139	151
Total deferred tax assets	522	482
Deferred tax liabilities:		
Depreciation and amortization	(266)	(337)
Total deferred tax liabilities	(266)	(337)
Net deferred tax asset	$ 256	$ 145

The provision for income taxes is as follows:

	Year ended December 31,	
	2019	2018
Current:		
Federal	$ 1,740	$ 967
State	412	327
Foreign	220	292
	2,372	1,586
Deferred:		
Federal	(120)	(11)
State	9	4
	(111)	(7)
	$ 2,261	$ 1,579
Effective Tax Rate	25.0 %	30.9 %

The Company's effective tax rate for the year ended December 31, 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 year ended December 31, 2018, which were accounted for as a discrete item, resulting in a 19.4% 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 year ended December 31, 2018. The effective tax rate for ordinary income was 25.1% for the year ended December 31, 2018.

The reasons for the difference between total tax expense and the amount computed by applying the U.S. statutory federal income tax rate to income before income taxes are as follows:

	Year ended December 31,	
	2019	2018
Statutory rate applied to pretax income	$ 1,900	$ 1,075
Section 162(m) and other permanent items	27	203
Potential state tax obligations, net of federal tax benefit	—	158
State income taxes, net of federal income tax benefit	269	99
Foreign income taxes over U.S. statutory rate	28	50
Other items	37	(6)
Income tax expense	$ 2,261	$ 1,579

The Company receives a tax deduction from the income realized by employees on the exercise of certain non-qualified stock options and restricted stock awards for which the tax effect of the difference between the book and tax deduction is recognized as a component of current income tax. Included in the table above is the net effect of the global intangible low-taxed income ("GILTI") inclusion for the years ended December 31, 2019 and 2018 of $0.1 million, respectively, which is fully offset by a foreign tax credit.

The Company has analyzed filing positions in all the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company has identified its federal consolidated tax return, its state tax return in New Jersey and its Canadian tax return as major tax jurisdictions. As of December 31, 2019, the Company's 2016 through 2018 Federal tax returns remain open for examination. The Company's New Jersey and Canadian tax returns are open for examination for the years 2015 through 2018. As of December 31, 2018, the Company recorded an accrual of $0.6 million, net of federal tax benefit, for potential liabilities for state income taxes in states which have enacted economic nexus statutes and 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 experience and interpretations of tax law applied to the facts of each matter.

For financial reporting purposes, income before income taxes includes the following components:

	Year ended December 31,	
	2019	2018
United States	$ 8,155	$ 3,960
Foreign	893	1,157
	$ 9,048	$ 5,117

The following table summarizes the activity related to the Company's unrecognized tax benefits as of December 31, 2019 and 2018:

	2019	2018
Balance as of January 1	$ 541	$ 443
Additions related to prior period tax positions	-	200
Reductions related to settlements with tax authorities	(492)	(102)
Balance as of December 31	$ 49	$ 541

All of the unrecognized income tax benefits at December 31, 2019 and 2018 would have affected the Company's effective income tax rate if recognized. The Company believes that it is reasonably possible that a significant decrease in the total amount of unrecognized income tax benefits related to state exposures may be necessary within the next twelve months.

During the years ended December 31, 2019 and 2018, the Company incurred interest and penalties of less than $0.1 million, respectively, related to these uncertain tax benefits.

7. 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 3.04% at December 31, 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.

At December 31, 2019 and 2018, the Company had no borrowings outstanding under the Credit Facility. The Company incurred $0.1 million and $0.1 million of interest expense, related to the Credit Facility during the years ended December 31, 2019 and 2018, respectively.

8. Stockholders’ Equity and Stock-Based Compensation

At the annual stockholder’s meeting held on June 6, 2012, the Company’s stockholders approved the 2012 Stock-Based Compensation Plan (the “2012 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 December 31, 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 year ended December 31, 2019, the Company granted a total of 32,905 shares of Restricted Stock to officers, directors and employees. These shares of Restricted Stock vest immediately or over time in up to sixteen equal quarterly installments. During the year ended December 31, 2019, 16,530 shares of Restricted Stock were forfeited as a result of officers, directors and employees terminating employment with the Company.

During the year ended December 31, 2018, the Company granted a total of 123,000 shares of Restricted Stock to officers, directors and employees. These shares of Restricted Stock vest immediately or over time in up to twenty equal quarterly installments. During the year ended December 31, 2018, 7,176 shares of Restricted Stock were forfeited as a result of directors and employees terminating employment with the Company.

There was no options activity during the year ended December 31, 2019 and 2018 and there were no options outstanding or exercisable at December 31, 2019 and 2018, respectively, under the Company’s 2012 Plan.

Under the various plans, options that are cancelled can be reissued. At December 31, 2019, no cancelled options were reserved for future reissuance.

A summary of nonvested shares of Restricted Stock awards outstanding under the Company's 2012 Plan as of December 31, 2019, and 2018 and changes during the years ended December 31, 2019 and 2018 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2018	161,818	$ 17.26
Granted in 2018	123,000	14.97
Vested in 2018	(180,898)	16.62
Forfeited in 2018	(7,176)	15.44
Nonvested shares at December 31, 2018	96,744	$ 15.67
Granted in 2019	32,905	11.97
Vested in 2019	(49,197)	14.53
Forfeited in 2019	(16,530)	14.52
Nonvested shares at December 31, 2019	63,922	$ 14.94

As of December 31, 2019, there was approximately $0.9 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.2 years.

For the years ended December 31, 2019 and 2018, the Company recognized share-based compensation cost of approximately $0.8 million and $2.8 million, respectively. During the year ended December 31, 2018, $1.7 million of stock compensation expense related to the accelerated vesting of shares upon resignation of the Company's former Chief Executive Officer, was included in separation expense in the accompanying Consolidated Statements of Earnings. All other share-based compensation is included in selling, general and administrative expenses. The Company does not capitalize any share-based compensation cost.

9. Defined Contribution Plan

The Company maintains a defined contribution plan covering substantially all domestic employees. Participating employees may make contributions to the plan, through payroll deductions. Matching contributions are made by the Company equal to 50% of the employee's contribution to the extent such employee contribution did not exceed 6% of their compensation. During the years ended December 31, 2019 and 2018, the Company expensed approximately $0.3 million, respectively, related to this plan.

10. Commitments and Contingencies

Leases

Operating leases primarily relate to the lease of the space used for our operations in Eatontown, New Jersey; Mesa, Arizona; Oakville, Canada; and Amsterdam, Netherlands. Future minimum rental commitments under non-cancellable operating leases as of December 31, 2018 are as follows:

2019	$ 484
2020	438
2021	405
2022	414
2023	463
Thereafter	1,572
	$ 3,776

Rent expense for the years ended December 31, 2019 and 2018 was approximately $483 thousand and $496 thousand, respectively.

Employment Agreements

The Company has entered into employment agreements with five of its executive officers. If the Company terminates their respective employment for any reason other than for cause, these executive officers are entitled to severance payments ranging from six to twelve months at each executive officer's then applicable base salary. Certain of these executive officers are entitled to additional severance payments if the Company terminates their respective employment for any reason other than for cause during the term of their employment and on or within twelve months following a change in control.

Other

As of December 31, 2019, the Company has no standby letters of credit, has no standby repurchase obligations or other commercial commitments. The Company has a line of credit see Note 7 (Credit Facility). Other than employment arrangements, other management compensation arrangements and related party transactions as disclosed in Note 11, the Company is not engaged in any other transactions with related parties.

11. Related Party Transactions

The Company made sales to a customer where a member of our Board of Directors is an executive. During the years ended December 31, 2019 and 2018, net sales to this customer totaled $0.1 million, respectively, and amounts due from this customer as of December 31, 2019 and 2018 totaled $0.1 million, respectively, which were settled in cash subsequent to each year end.

12. Industry, Segment and Geographic Financial Information

The Company distributes software developed by others through resellers indirectly to customers worldwide. We also resell computer software and hardware developed by others and provide technical services directly to customers in the USA and Canada. We also operate a sales branch in Europe to serve our customers in this region of the world.

Geographic revenue and identifiable assets related to operations as of and for the years ended December 31, 2019 and 2018 were as follows. Revenue is allocated to a geographic area based on the location of the sale, which is generally the customer's country of domicile. No one country other than the USA represents more than 10% of net sales for 2019 or 2018.

	2019	2018
Net sales to Unaffiliated Customers:		
USA	$ 186,488	$ 159,275
Canada	11,751	12,036
Rest of the world	10,520	10,133
Total	$ 208,759	$ 181,444

	2019	2018
Identifiable Assets by Geographic Areas at December 31,		
USA and rest of the world	$ 117,913	$ 100,762
Canada	8,368	7,209
Total	$ 126,281	$ 107,971

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 Company's Chief Operating Decision Maker (CODM) to assess performance and allocate resources determines the basis for reportable operating segments. The Company's CODM is the Chief Executive Officer.

The Company is organized into two reportable operating segments. The "Lifeboat Distribution" segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide. The "TechXtend" segment is a value-added reseller of software, hardware and services for corporations, government organizations and academic institutions in the USA 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 they provide the same products and services to similar clients and are considered together when the 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 a business unit. The Company only identifies accounts receivable and inventory by segment as shown below as "Selected Assets" by segment; it does not allocate its other assets, including capital expenditures by segment.

	Year ended December 31,	
	2019	2018
Revenue:		
Lifeboat Distribution	$ 193,558	$ 163,564
TechXtend	15,201	17,880
	208,759	181,444
Gross Profit:		
Lifeboat Distribution	$ 26,773	$ 23,441
TechXtend	3,194	3,479
	29,967	26,920
Direct Costs:		
Lifeboat Distribution	$ 10,104	$ 8,920
TechXtend	1,526	1,707
	11,630	10,627
Segment Income Before Taxes: (1)		
Lifeboat Distribution	$ 16,669	$ 14,521
TechXtend	1,668	1,772
Segment Income Before Taxes	18,337	16,293
General and administrative	$ 9,771	$ 9,692
Separation expenses	100	2,446
Interest, net	500	907
Foreign currency transaction gain	82	55
Income before taxes	$ 9,048	$ 5,117

(1) Excludes general corporate expenses including separation, interest, and foreign currency transaction expenses.

Selected Assets by Segment:	December 31, 2019	2018
Lifeboat Distribution	$ 99,602	$ 77,610
TechXtend	5,603	11,542
Segment Select Assets	105,205	89,152
Corporate Assets	21,076	18,819
Total Assets	$ 126,281	$ 107,971

Disaggregation of Revenue:	Year ended December 31, 2019	2018
Lifeboat Distribution		
Hardware, software and other products	$ 175,771	$ 148,570
Software - security & highly interdependent with support	6,898	6,087
Maintenance, support & other services	10,889	8,907
Net Sales	$ 193,558	$ 163,564
TechXtend		
Hardware, software and other products	$ 13,564	$ 16,300
Software - security & highly interdependent with support	288	440
Maintenance, support & other services	1,349	1,140
Net Sales	$ 15,201	$ 17,880

The Company had two customers that each accounted for more than 10% of total consolidated net sales for the year ended December 31, 2019. For the year ended December 31, 2019, CDW Corporation ("CDW") and Software House International Corporation ("SHI"), accounted for 26%, and 16%, respectively, of consolidated net sales and as of December 31, 2019, 43% and 12%, respectively, of total net accounts receivable. For the year ended December 31, 2019, Sophos and SolarWinds accounted for 22% and 17%, respectively of our consolidated purchases.

For the year ended December 31, 2018, CDW and SHI accounted for 26%, and 17%, respectively, of consolidated net sales and as of December 31, 2018, 36% and 15%, respectively, of total net accounts receivable. For the year ended December 31, 2018, Sophos and SolarWinds accounted for 24% and 15%, respectively of our consolidated purchases.

Our top five customers accounted for 56% and 55% of consolidated net sales for the years ended December 31, 2019 and 2018, respectively.

13. Quarterly Results of Operations (Unaudited)

The following table presents summarized quarterly results for 2019:

	First	Second	Third	Fourth
Net sales	$ 44,858	$ 50,676	$ 52,363	$ 60,862
Gross profit	7,234	7,819	7,055	7,859
Net income	1,463	1,857	1,445	2,022
Basic net income per common share	$ 0.32	$ 0.42	$ 0.32	$ 0.45
Diluted net income per common share	$ 0.32	$ 0.42	$ 0.32	$ 0.45

The following table presents summarized quarterly results for 2018:

	First	Second	Third	Fourth
Net sales	$ 40,552	$ 43,914	$ 47,923	$ 49,055
Gross profit	6,894	6,498	6,303	7,225
Net income (loss)	1,598	(1,117)	1,318	1,739
Basic net income (loss) per common share	$ 0.36	$ (0.25)	$ 0.29	$ 0.39
Diluted net income (loss) per common share	$ 0.36	$ (0.25)	$ 0.29	$ 0.39

14. 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 year ended December 31, 2019 related to the 2018 Separation Agreement. The Company recorded separation expenses of $2.4 million during the year ended December 31, 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 was entitled to receive a one-time cash payment of $0.1 million, payable in six equal monthly installments, all of which have been paid through December 31, 2019.

The Company recorded separation expenses of $0.1 million during the year ended December 31, 2019 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 year ended December 31, 2018 related to the 2019 Separation Agreement.

15. Subsequent Events

Shareholder Demand Letter

By letter dated January 22, 2020, a shareholder of the Company demanded that the Board of Directors investigate and bring an action against the Company's former Chairman, President and Chief Executive Officer, Simon Nynens, for his breaches of certain restrictive covenants contained in the separation agreement he entered into with the Company on or about May 11, 2018. Following receipt of the shareholder demand, the Company filed a lawsuit against Mr. Nynens, Shepherd Kaplan Krochuk, LLC ("SKK"), and North & Webster SSG, LLC ("N&W," and together with SKK, the "N&W Group") on February 14, 2020, in the Superior Court of New Jersey Monmouth County. The Company's complaint asserts claims against Mr. Nynens for his breaches of his separation agreement with the Company and claims for tortious interference against the N&W Group for inducing Mr. Nynens to commit those breaches. In connection with its claims, the Company seeks monetary damages, injunctive relief, and a declaratory judgment against Mr. Nynens and the N&W Group. The litigation is in its early stages.

Previously, the Company had received unsolicited acquisition proposals from the N&W Group to acquire all of the outstanding shares of common stock of the Company. The Company received the most recent unsolicited acquisition proposal from the N&W Group on December 10, 2019, and that proposal expired on its own terms on December 16, 2019. Prior to that, Mr. Nynens entered into an agreement with the N&W Group on November 27, 2019, granting SKK an irrevocable proxy to vote his shares of our common stock in favor of any acquisition proposal by SKK, against any third-party acquisition, and as directed by SKK with respect to the election of directors nominated by persons other than the Company. On December 20, 2019, Mr. Nynens nominated four individuals for election to our Board of Directors at the 2020 annual meeting of stockholders.

The Company and its Board of Directors have hired financial advisors and legal counsel to advise on resolution of the matters. The ultimate outcome of these matters and related costs cannot be determined at this time, and accordingly no provision has been recorded for estimated expenses to resolve the matter.

Wayside Technology Group, Inc. and Subsidiaries
Schedule II--Valuation and Qualifying Accounts
(Amounts in thousands)

Description	Beginning Balance	Charged to Cost and Expense	Deductions	Ending Balance
Year ended December 31, 2018				
Allowances for accounts receivable	$ 862	$ (75)	$ 2	$ 785
Year ended December 31, 2019				
Allowances for accounts receivable	$ 785	$ —	$ 20	$ 765

Exhibit 4.3

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

Wayside Technology Group, Inc. (the "Company," "we" or "our") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which is our common stock, par value $0.01 per share ("Common Stock"). The following summary of the material terms of our Common Stock is qualified by reference to our Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation") and our Restated Bylaws (the "Bylaws"), each of which is incorporated by reference as an exhibit to our Annual Report on Form 10-K, as well as applicable provisions of the Delaware General Corporation Law ("DGCL").

Capitalization

Our authorized capital stock consists of 10,000,000 shares of Common Stock and 10,000 shares of preferred stock, par value $0.01 per share ("Preferred Stock").

Common Stock

Holders of our Common Stock are entitled to receive dividends and other distributions when authorized by our Board of Directors and declared by us out of assets legally available for the payment thereof. Holders of our Common Stock are also entitled, in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, to receive a pro rata distribution of any remaining assets after payment or provision for payment of our debts or liabilities. These rights are subject to the preferential rights of any Preferred Stock outstanding at any time.

Each share of Common Stock shall be entitled to one vote per share on all matters to be voted on by the stockholders of the Company, including the election of Directors. Except as provided by the terms of any outstanding Preferred Stock, our common stockholders will possess exclusive voting power. Cumulative voting in the election of Directors is not permitted. Directors will be elected by a plurality of voting power of the shares of capital stock of the Company which are present in person or by proxy and entitled to vote in the election of Directors at a duly called meeting at which a quorum is present. The affirmative vote of the holders of a majority in voting power of the shares of capital stock of the Company which are present in person or by proxy and entitled to vote thereon cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any matter which may properly come before the meeting, unless more than a majority of the votes present is required by statute or the Certificate of Incorporation.

Holders of our Common Stock have no preemptive, subscription, redemption, sinking fund or conversion rights. The rights, preferences and privileges of holders of our Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock which we may designate and issue in the future.

Our Common Stock is listed on the New York Stock Exchange under the symbol "WSTG."

Preferred Stock

Our Certificate of Incorporation authorizes our Board of Directors, without further action by our stockholders, to establish one or more series of Preferred Stock and to determine, with respect to any series of Preferred Stock, the voting powers, full or limited, or no voting powers, and with such designations, preferences and relative, participating, optional or other rights, and qualifications or restrictions thereof. As a result, our Board of Directors could authorize the issuance of shares of Preferred Stock that have priority over shares of our Common Stock with respect to dividends or other distributions or rights upon liquidation, voting rights or with other terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change of control of our Company. As of the date hereof, we have no outstanding shares of Preferred Stock.

Certain Provisions of Delaware Law and Our Charter and Bylaws

Our Board of Directors

Our Certificate of Incorporation provides that the number of Directors of our Company may not be fewer than three and may be fixed only by the resolution of Directors then in office. We currently have 7 Directors. Subject to the rights of the holders of any outstanding Preferred Stock, any vacancy in the Board of Directors (including a vacancy caused by an increase in the number of Directors) may be filled solely by resolution adopted by a majority of Directors then in office, whether or not such majority constitutes less than a quorum, or by a sole remaining Director; provided however that any vacancy created by a removal of a Director by the stockholders may be filled by action of the stockholders taken at the same meeting at which the vacancy was created; such action to be upon the affirmative vote of the holders of not less than a majority of the voting power of the outstanding capital stock entitled to vote in the election of Directors, voting as a single class. Subject to the rights of holders of any outstanding Preferred Stock to elect Directors or to remove Directors so elected, a Director may be removed only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of the outstanding capital stock entitled to vote in the election of Directors, voting as a single class.

Special Meetings of Stockholders

Special meetings of stockholders of the Company may be called only by the Chairman of the Board of Directors, our Chief Executive Officer, our President or the record holders of at least 35% of the voting power of the issued and outstanding capital stock of the Company.

Amendments to our Certificate of Incorporation and Bylaws

Any amendment of our Certificate of Incorporation must first be declared advisable by our Board of Directors and, if required by the DGCL or our Certificate of Incorporation, thereafter be approved by a majority of the outstanding shares entitled to vote on the amendment, and a majority of the outstanding shares of each class entitled to vote thereon as a class. Notwithstanding the preceding sentence, the affirmative vote of stockholders holding 66-2/3% of the outstanding shares of capital stock then entitled to vote thereon shall be required in order to amend any provision of, or to adopt any provision which is inconsistent with Article V (Board of Directors; Stockholders' Meetings), Article VI (Director Liability) or Article VII (Amendments to the Restated Certificate of Incorporation) of our Certificate of Incorporation. Our Bylaws may be amended by our Board of Directors and may also be amended by the affirmative vote of stockholders holding not less than 66-2/3% of the voting power of the Company then entitled to vote thereon.

Requirements for Advance Notice of Shareholder Proposals and Nominations

Except as provided in Rule 14a-8 of the Exchange Act, a stockholder who intends to propose business at an annual or special meeting of the stockholders of the Company must comply with the notice and informational requirements set forth in our Certificate of Incorporation. Pursuant to our Certificate of Incorporation a shareholder's notice must be delivered to the Secretary of the Company at the principal executive offices of the Company not later than the earlier to occur of (i) the date which is 60 days prior to the meeting and (ii) the date determined by the Company in compliance with the Exchange Act as the last date on which stockholder proposals may be submitted to the Company for inclusion in the Company's proxy materials; provided that, if the Company provides less than 60 days' notice or prior public disclosure of the date of the meeting, to be timely, any such stockholder proposal must be received no later than the close of business on the tenth day following the day on which such notice or prior disclosure was made, whichever first occur

Delaware Anti-Takeover Law

We are subject to Section 203 of the DGCL. Section 203 generally prohibits a public Delaware corporation from engaging in a business combination with an "interested stockholder" for a period of three years following the date on which the stockholder became an interested stockholder, unless:

- prior to the date of the business combination, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) (a) shares owned by persons who are directors and also officers and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- on or subsequent to the date of the business combination, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66-2/3% of the outstanding voting stock which is not owned by the interested stockholder.

The term "interested stockholder" is defined generally as any person who is the owner of 15% or more of the corporation's outstanding voting stock or any person who is an affiliate or associate of the corporation and was the owner of 15% or more of the corporation's outstanding voting stock at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such person is an interested stockholder, and the affiliates and associates of such person.

Anti-Takeover Effects of Various Provisions

Certain provisions of the DGCL, our Certificate of Incorporation and our Bylaws summarized above may have an anti-takeover effect and could make the following transactions more difficult: acquisition of the Company by means of a tender offer; acquisition of the Company by means of a proxy contest or otherwise; or removal of the Company's incumbent officers and directors. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that stockholders may otherwise consider to be in their best interest or in the best interests of the Company, including transactions that might result in a premium over the market price for shares of our Common Stock.

Exhibit 21.1

Subsidiaries (Active)

Name	**Jurisdiction of Organization**
Lifeboat Distribution, Inc.	Delaware
Wayside Technology Group (Canada), Inc.	Canada
TechXtend, Inc.	Delaware
ISP International Software Partners, Inc.	Delaware
Lifeboat Distribution, EMEA B.V.	Netherlands

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Wayside Technology Group, Inc. and Subsidiaries
Eatontown, New Jersey

We hereby consent to the incorporation by reference in the Registration Statement on Form S8 (No. 333-184573) of our report dated March 4, 2020, relating to the consolidated financial statements and financial statement schedule of Wayside Technology Group, Inc. and Subsidiaries which appears in this Form 10-K.

/s/ BDO USA, LLP
Woodbridge, New Jersey

March 4, 2020

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Dale Foster, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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 15d-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 on 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 officers 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 the 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: March 4, 2020

/s/ Dale Foster
Dale Foster
Chief Executive Officer and Director

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER (THE PRINCIPAL FINANCIAL OFFICER)

I, Michael Vesey, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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 15d-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 on 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 officers 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 the 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: March 4, 2020

/s/ Michael Vesey
Michael Vesey
Vice President
and Chief Financial Officer (principal financial officer)

Exhibit 31.3

CERTIFICATION OF CHIEF ACCOUNTING OFFICER (THE PRINCIPAL ACCOUNTING OFFICER)

I, Kevin T. Scull, certify that:

1. I have reviewed this annual report on Form 10-K 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 officers 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 15d-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 on 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 officers 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 the 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: March 4, 2020

/s/ Kevin T. Scull
Kevin T. Scull
Vice President and Chief Accounting Officer
(principal accounting officer)

Exhibit 32.1

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 Annual Report of Wayside Technology Group, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Dale Foster, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dale Foster
Dale Foster
Chief Executive Officer and Director
March 4, 2020

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

Exhibit 32.2

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 Annual Report of Wayside Technology Group, Inc. (the “Company”) on Form 10-K for the period ending December 31, 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
March 4, 2020

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

Exhibit 32.3

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 Annual Report of Wayside Technology Group, Inc. (the “Company”) on Form 10-K for the period ending December 31, 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 Scull
Kevin T. Scull
Vice President and Chief Accounting Officer
(Principal Accounting Officer)
March 4, 2020

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