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# 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, 2022

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

### CLIMB GLOBAL SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

13-3136104

(IRS Employer Identification Number)

4 Industrial Way West, Suite 300 Eatontown, NJ  
(Address of principal executive offices)

07724  
(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	CLMB	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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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 30, 2022, 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 \$134.8 million. For purposes of this calculation, directors, officers and holders of more than 10% of the outstanding shares of Common Stock of the Registrant are deemed to be affiliates of the Registrant and the shares of Common Stock beneficially owned by them 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 28, 2023 was 4,516,652 shares.

Documents Incorporated by Reference: Portions of the Registrant's definitive Proxy Statement for its 2023 Annual Meeting of Stockholders are incorporated by reference in Part III herein. The registrant intends to file such Proxy Statement with the Securities and Exchange Commission no later than 120 days after the end of the period covered by this report on Form 10-K.

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## PART I

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

*This Annual Report on Form 10-K (“Annual Report”) includes statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and are intended to come within the safe harbor protection provided by those sections. The statements, other than statements of historical fact, included in this Annual Report are forward-looking statements. Many of the forward-looking statements contained in this Annual Report may be identified by the use of forward-looking words such as “believes,” “expects,” “intends,” “anticipates,” “plans,” “estimates,” “projects,” “forecasts,” “should,” “could,” “would,” “will,” “confident,” “may,” “can,” “potential,” “possible,” “proposed,” “in process,” “under construction,” “in development,” “opportunity,” “target,” “outlook,” “maintain,” “continue,” “goal,” “aim,” “commit,” or similar expressions or when we discuss our future operating results, priorities, strategy, goals, vision, mission, opportunities, projections, intentions or expectations. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Because these forward-looking statements are subject to risks and uncertainties, actual results could differ materially from those indicated by such forward-looking statements. These risks and uncertainties include, but are not limited to, the continued acceptance of the Company’s distribution channel by vendors and customers, the timely availability and acceptance of new products, product mix, market conditions, inflation, competitive pricing pressures, the successful integration of acquisitions, contribution of key vendor relationships and support programs, including vendor rebates and discounts, as well as factors that affect the software industry in general and other factors generally. Currently, one of the most significant factors is the potential adverse effect of the current COVID-19 pandemic on the Company, the global economy and financial markets. The extent to which COVID-19 impacts the Company will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, including the impact on our reseller partners and the end customer markets they serve, among others. We strongly urge current and prospective investors to carefully consider the cautionary statements and risk factors contained in this report, particularly the risks described under “Item 1A. Risk Factors” herein.*

*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.*

Unless otherwise specified, the “Company,” “we,” “us” or “our” refers to Climb Global Solutions, Inc., a Delaware corporation (formerly known as Wayside Technology Group, Inc.), and its consolidated subsidiaries.

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## Item 1. Business

### General

The Company is a value added information technology (“IT”) distribution and solutions company. The Company primarily operates through its “Distribution” segment, which distributes emerging technologies to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide under the name “Climb Channel Solutions”. The Company also operates a smaller segment called “Solutions”, which is a cloud solutions provider and value-added reseller of software, hardware and services for customers worldwide under the name “GreyMatter”. 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. On October 31, 2022, the Company adopted its current name, Climb Global Solutions, Inc. Our common stock, par value \$0.01 per share (“Common Stock”) is listed on The NASDAQ Global Market under the symbol “CLMB”.

#### *Distribution Segment*

In our Distribution segment, which accounted for approximately 93% of our consolidated net sales and 83% of our consolidated gross profit during the year ended December 31, 2022, 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 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 and scalable business model with low capital investment requirements. The large majority of the products we sell are either digital products such as license authorizations, third party maintenance contracts, or hardware that 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 vendor partners, allowing us to deploy a capital efficient model as reflected by our return on equity and pre-tax income as a percentage of gross profit generated.

In our Distribution 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.

#### *Solution Segment*

We also provide comprehensive IT solutions directly to end users through our Solutions segment, which accounted for approximately 7% of our consolidated net sales and 17% of our consolidated gross profit during the year ended December 31, 2022. Products in this segment are acquired directly from OEMs, software developers or distributors

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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.

**Acquisitions**

We view acquisitions as an important part of our strategic growth plan. In 2020, we completed two acquisitions to add scale, broaden our geographic footprint, expand partner relationships and add cloud support capabilities.

In 2022, we completed the acquisition of Spinnakar Limited (“Spinnakar”), which expanded our sales presence in the United Kingdom distribution operations and brought key vendor partner relationships to our portfolio.

We plan to continue to evaluate acquisition opportunities as part of our strategic growth plan going forward.

**Products**

An essential part of our ongoing operations and strategic growth plan in our Distribution segment is the continued recruitment of software vendors for which we become authorized distributors of their products. Through our Distribution segment, 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, Microsoft, Micro Focus, Mindjet, SmartBear Software, SolarWinds, Sophos, StorageCraft Technology, TechSmith, Trend Micro, Unitrends, 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. Developing a diverse vendor base is a key element of our business strategy. We focus on establishing deep relationships with our vendor and reseller partners by providing specialized product training to our sales force and the use of dedicated sales teams. We have also established an efficient ordering process with our key partners through the implementation of electronic ordering and other processes adapted to their requirements. As a result, our relationships with our key vendor partners tend to be long-term in nature despite the absence of long-term contracts, with a significant portion of sales derived from annually recurring renewals of software maintenance and subscription agreements related to our partners embedded base of customers utilizing their software products. Additionally, a key part of our strategic growth plan is to provide a high level of support to select emerging technology vendors through our Climb Elevate program to develop future relationships throughout the growth cycle of a vendor partner.

In our Solutions business, an essential part of our strategic growth plan is to pursue opportunities with higher growth prospects and gross margin characteristics through the sale of specialty products, services and cloud offerings. Through acquisitions in the prior years, we added certain technical and administrative support capabilities to enable us to resell cloud and software as a service products (“SaaS”) including Microsoft products in the United Kingdom. Our strategic growth plan is to expand our cloud offerings by leveraging these support services to other markets and products.

For the year ended December 31, 2022, the Company had two vendors that accounted for 17% and 9%, respectively, of our consolidated purchases. For the year ended December 31, 2021, these same two vendors accounted for 20% and 10%, 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 5% of our adjusted gross billings in 2022 and 2021, respectively.

**Cloud**

Our vendor and reseller partners are increasingly incorporating cloud and hybrid cloud products into their portfolios. An essential part of our strategic growth plan is to provide value added services to our vendor partners and customers to enhance their ability to market these products. This includes maintaining infrastructure to facilitate licensing of cloud and SaaS products, providing technical support for cloud products, and providing integration and enablement

services. We currently have the ability to provide support for these cloud services in the United Kingdom and Europe, and plan to continue to leverage these capabilities to provide cloud support services throughout our worldwide operations.

### **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.

We sell products to large, multi-national broad line resellers, sometimes referred to as direct market resellers (DMRs), as well as thousands of VARs, which tend to be smaller and focus on value added services to their customers. As part of our strategic growth plan, we expect to continue diversifying our customer base by offering compelling products to the VAR community as we develop our vendor partner lineup. As a result, an increasing proportion of our sales in 2022 were from VARs, driven by a continued focus on increasing sales to larger VARs with more than \$1 million in annual sales. For the year ended December 31, 2022, the Company had two customers, both of whom are considered DMRs, that accounted for 21%, and 16%, respectively, of consolidated net sales and as of December 31, 2022, 16% and 18%, respectively, of total net accounts receivable. For the year ended December 31, 2021, these same two customers accounted for 18%, and 17%, respectively, of consolidated net sales and as of December 31, 2021, 18% and 22%, respectively, of total net accounts receivable. Our top five customers accounted for 52% and 51% of consolidated net sales in 2022 and 2021, respectively.

Net sales to customers in Canada represented 8% and 9% of our consolidated net sales in 2022 and 2021, respectively. Net sales in Europe and the rest of the world represented 14% and 13% of our consolidated net sales in 2022 and 2021, respectively. For geographic financial information, please refer to Note 13 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 vendor partners 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 vendor partners, and substantially all the Company's contracts with its vendors are terminable upon 30 days' notice or less, however, it is notable that the tenure of our relationships with vendor partners tends to extend over a longer term. We attribute this to the deep relationships we establish with our partners involving sales support, product and customer knowledge, and tailored infrastructure to facilitate efficient order processing.

Most vendor partners 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 vendor partners 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 in time for next day shipping. The Company promotes the use of EDI with its vendor partners and customers, which helps reduce overhead and the use of paper in the ordering process.

### **Competition**

The Company operates in a highly competitive environment, both in the United States and internationally. There is significant competition within each market segment and geography served that creates pricing pressure and the need to continually improve services. The market for the technology products we sell is characterized by rapid changes in technology, user requirements, and competitive pricing. The way software products are distributed and sold is constantly changing, and new methods of distribution and sale may emerge or expand, including direct sales by technology providers to end users, and the introduction of cloud versions of their products. As an IT channel solutions provider, a critical element of our strategic growth plan is to maintain our ability to offer an efficient route to market for emerging technology vendors. Additionally, a key element of our strategic growth plan is to capitalize on market changes by implementing new value added services such as cloud support and integration offerings.

In our Distribution segment, we compete with other distributors to become an authorized distributor of products from software developers and vendors. 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. We also compete against other distributors to gain market share among authorized resellers for products we are authorized to distribute based on price, and level of service. We compete against much larger broad-line distributors with more resources than we have, including Arrow Electronics Inc. (NYSE: ARW), TD Synnex Corporation (NYSE: SNX) and Ingram Micro, as well as specialty distributors. We believe we offer a compelling solution for emerging technology vendors seeking to establish the IT channel as a route to market, by offering broad distribution capabilities with more flexibility than some of our larger competitors.

In our Solutions segment, we compete against a large variety of IT solutions providers including e-commerce sites, service organizations, value added resellers, cloud solution providers and technology providers offering direct solutions. We believe that our ability to offer software developers and IT professionals easy access to a wide selection of desired IT products at reasonable prices with prompt delivery and high customer service levels, along with our good relationships with vendor partners, allows us to compete effectively.

### **Information Technology**

The Company operates IT systems on several platforms including Windows and cloud-based platforms that control the full order processing cycle. These IT 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, Service Marks and Domain Names**

The Company conducts its business under various trademarks and service marks including Climb Channel Solutions, Grey Matter, Cloud Know How 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.

We have registered and maintained Internet domain names, including “climbglobalsolutions.com”.

### **Government Regulation**

The Company is subject to and endeavors to comply with various government regulations in the United States as well as various jurisdictions where it operates. These regulations cover several diverse areas including trade compliance, anti-bribery, anti-corruption, money laundering, securities, environmental, and data and privacy protection. Increased government scrutiny of the Company's actions or enforcement could materially and adversely affect its business or damage its reputation. In addition, the Company may conduct, or it may be required to conduct, internal investigations or face audits or investigations by one or more domestic or foreign government or regulatory agencies, which could be costly and time-consuming, and could divert management and key personnel from the Company's business operations. See Risk Factors in Part I, Item 1A.

### **Employees and Human Capital**

We understand the importance of human capital and prioritize building our culture, talent development, compensation and benefits, and diversity and inclusion. Our human capital resources objectives include identifying, recruiting, retaining, incentivizing and integrating our existing and new employees, advisors and consultants. The attraction, retention and development of employees is critical to our success. We accomplish this, in part, by our competitive compensation practices, training initiatives, and growth opportunities within the Company.

The Company believes its capabilities and services are made possible by a broad group of professionals who understand its customer's problems from numerous perspectives and curate forward-looking, comprehensive solutions. The Company's employees' diverse backgrounds have melded into rich perspectives that sharpen the Company, drive more scale, extending the Company's value, winning in the market with the diversity of its people and the strength of its culture, to enhance value for customers and benefit all stakeholders.

The Company's business results depend in part on its ability to successfully manage human capital resources, including attracting, identifying, and retaining key talent. Factors that may affect the Company's ability to attract and retain qualified employees include employee morale, its reputation, competition from other employers, and availability of qualified individuals.

As of December 31, 2022, the Company had 300 total employees, including 284 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.

The following table shows the Company's approximate headcount by region:

	<u>Americas</u>	<u>EMEA</u>
Headcount	162	138

### *Workforce Health and Safety*

We take workplace safety very seriously and our robust safety program means that we are constantly evaluating our safety protocols in an effort to keep our facilities safe for our employees.

The Company continued to provide a safe work environment as the COVID-19 pandemic persisted during 2022. It aligned with and followed the guidance of the world's leading health authorities, as well as related local, regional, and national government directives.

We continue to monitor the impact of the COVID-19 pandemic on our teammates and within our operations, and proactively modify or adopt new practices to promote their health and safety.

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*Compensation and Benefits*

As part of our compensation philosophy, we believe that we must offer and maintain market competitive compensation and benefit programs for our employees in order to attract and retain superior talent. In addition to competitive base wages, additional programs include the 2021 Omnibus Incentive Plan, a company matched 401(k) Plan, healthcare and insurance benefits, flexible spending accounts, paid time off and employee assistance programs.

*Diversity and Inclusion*

We are committed to our continued efforts to increase diversity and foster an inclusive work environment that supports the workforce and the communities we serve. We recruit the best qualified employees regardless of gender, ethnicity or other protected traits and it is our policy to fully comply with all laws applicable to discrimination in the workplace.

**Company Information**

Our principal executive offices are located at 4 Industrial Way West, Suite 300 Eatontown, NJ 07724, and our telephone number is (732) 389-0932. We have operations throughout North America and Europe. Our website address is [www.climbglobalsolutions.com](http://www.climbglobalsolutions.com), and the other web sites maintained by our business include [www.climbcs.com](http://www.climbcs.com) and [www.greymatter.com](http://www.greymatter.com). Information contained on or accessible through our websites is neither a part of this Annual Report nor incorporated by reference herein, and any references to our website and the inclusion of our website address in this Annual Report are intended to be inactive textual references only.

**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.climbglobalsolutions.com>, its reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after they are filed with the SEC. The information contained on, or otherwise accessible through, our website is not part of, or incorporated by reference into, this Annual Report.

The Company has a Code of Ethics and Business Conduct that applies to all employees, officers and directors of the Company, including our Chief Executive Officer and Chief Financial Officer. 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, is available at our web site, <http://www.climbglobalsolutions.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 and could cause our results to differ from the “forward-looking statements” contained in this Annual Report. 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.*

### Risks Related to our Business and Industry

***We serve customers and have locations throughout the world and are subject to terrorist attacks, acts of war, natural disasters, global pandemic and other similar risks, including without limitation, COVID-19, which could materially adversely affect our business, financial condition, and results of operations.*** Terrorist attacks, acts of war, natural disasters, global pandemics or other disasters or public health concerns in regions of the world where we have operations could result in the disruption of our business. Such acts, including Russia’s February 2022 invasion of Ukraine, have created, and continue to create, economic and political uncertainties and have contributed to global economic instability. Specifically, these acts, pandemics, disasters and health concerns can result in increased travel restrictions and extended shutdowns of certain businesses in the region, as well as social, economic, or labor instability. Disruptions in affected regions over a prolonged period could have a material adverse impact on our business and our financial results.

The global COVID-19 pandemic continues to impact the Company's business, through significant shortages, disruptions, constraints, extended lead times, and unpredictability across the global supply chain; which has resulted in rapidly changing market conditions, including frequent, and unpredictable, increases in the price of products and services the Company sells. Further disruptions to the supply chain due to the COVID-19 pandemic and its variants, or other global or domestic events could materially adversely impact the Company’s business, and the Company may not be able to mitigate or prevent disruptions that may arise from shortages, or the other related impacts discussed above, particularly if the Company is unable to pass price increases on to customers, or if the Company experiences significant decreases in price, or other pricing pressures caused by disruption of the global markets in which it operates. Even after the COVID-19 pandemic has subsided and the U.S. Administration announced that the Covid public health emergency is set to expire on May 11, 2023, we may continue to experience adverse impacts to our business as a result of any economic recession or depression that has occurred or may occur in the future. Refer to "COVID-19 Pandemic Update" in Management's Discussion & Analysis of Financial Condition and Results of Operations for a further discussion about the Company's description about the impacts of COVID-19.

***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 vendor partners 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 vendor partner 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 Electronic Software Distribution (“ESD”) 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 vendor partners

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 vendor partners that have historically provided these benefits to us decides to reduce such benefits, our expenses would increase, adversely affecting our results of operations.

***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 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 to 60-day payment terms. In addition, we offer extended payment terms to certain customers for terms of up to two 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, certain 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 26% of our 2022 purchases and sales from our largest five vendors generated approximately 42% of 2022 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 2022, our two largest customers accounted for 37% of our net sales and our largest five customers accounted for 52% 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 2022, 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.

***We may explore additional growth through acquisitions.*** During the current year, we completed one acquisition to expand our sales presence in the United Kingdom distribution operations and bring key vendor partner relationships to our portfolio. As part of our strategic growth plan, 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.

***When the Company makes acquisitions, it may take on additional liabilities or not be able to successfully integrate such acquisitions.*** As part of the Company's history and strategic growth plan, it has acquired other businesses. Acquisitions involve numerous risks, including the following:

- effectively combining the acquired operations, technologies, or products;
- unanticipated costs or assumed liabilities, including those associated with regulatory actions or investigations;
- not realizing the anticipated financial benefit from the acquired companies;
- diversion of management's attention;
- negative effects on existing customer and vendor partner relationships; and
- potential loss of key employees of the acquired companies.

Further, the Company has made, and may continue to make acquisitions of, or investments in new services, businesses or technologies to expand its current service offerings and product lines. Some of these may involve risks that may differ from those traditionally associated with the Company's core distribution business, including undertaking product or service warranty responsibilities that in its traditional core business would generally reside primarily with its vendor partners. If the Company is not successful in mitigating or insuring against such risks, it could have a material adverse effect on the Company's business.

***Our results of operations are subject to fluctuations in foreign currency.*** We have several foreign subsidiaries and conduct business in various countries and currencies. As result of these foreign operations, we have exposure to fluctuations in foreign currency rates resulting primarily from the translation exposure associated with the preparation of our consolidated financial statements. While our consolidated financial statements are reported in US dollars, the financial statements of our subsidiaries outside the US are prepared using the local currency as the functional currency and translated into US dollars. As a result, fluctuations in the exchange rate of the US dollar relative to the functional currencies of our subsidiaries could cause fluctuations in our results of operations. We also have foreign currency exposure to the extent net sales and purchases are not denominated in a subsidiary's functional currency, which could have an adverse effect on our business, results of operations, or cash flows.

***The Company's non-U.S. sales represent an increasing portion of its revenues, and consequently, the company is exposed to risks associated with operating internationally.*** In 2022 and 2021, approximately 22% of the Company's net sales came from its operations outside the United States. As a result of the Company's international sales and locations, its operations are subject to a variety of risks that are specific to international operations, including the following:

- import and export regulations that could erode profit margins or restrict exports;
- the burden and cost of compliance with international laws, treaties, and technical standards and changes in those regulations;
- potential restrictions on transfers of funds;
- import and export tariffs, duties and value-added taxes;
- transportation delays and interruptions;
- the burden and cost of compliance with complex multi-national tax laws and regulations;
- uncertainties arising from local business practices and cultural considerations;
- foreign laws that potentially discriminate against companies which are headquartered outside that jurisdiction;
- stringent antitrust regulations in local jurisdictions;
- volatility associated with sovereign debt of certain international economies;

- the uncertainty surrounding the implementation and effects of Brexit;
- potential military conflicts and political risks; and
- currency fluctuations, which the company attempts to minimize through traditional hedging instruments.

#### **Legal and Regulatory Risks**

***We may be liable for misuse of our customers' or employees' information.*** Third-parties, such as hackers, could circumvent or sabotage the security practices and products used in our product and service offerings, and/or the security practices or products used in our internal IT systems, which could result in disclosure of sensitive or personal information, unauthorized procurement, or other business interruptions that could damage our reputation and disrupt our business. Attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crime and advanced persistent threats.

As our employees continue to work on a hybrid environment, which includes splitting time between working from the office and working from home, we are highly reliant on the availability and functionality of our information systems to enable for our operations. Working from home may increase risk of data loss, including privacy-related events. If our information systems are not operational for reasons which may include cyber security attacks, data center failures, failures by telecom providers to provide services to our business and to our employees' homes, power failures, or failures of off-premise software such as SaaS based software, our business and financial results may be adversely impacted.

If third-parties or our employees are able to maliciously penetrate our network security or otherwise misappropriate our customers' information or employees' personal information, or other information for which our customers may be responsible and for which we agree to be responsible in connection with service contracts into which we may enter, or if we give third-parties or our employees improper access to certain information, we could be subject to liability. This liability could include claims for unauthorized access to devices on our network; unauthorized access to our customers' networks, hardware, applications, data, devices, or software; unauthorized purchases with credit card information; and identity theft or other similar fraud-related claims. This liability could also include claims for other misuses of or inappropriate access to personal information. Other liability could include claims alleging misrepresentation of our privacy and data security practices. Any such liability for misappropriation of this information could decrease our profitability. In addition, federal and state agencies have been investigating various companies regarding whether they misused or inadequately secured information. We could incur additional expenses when new laws or regulations regarding the use, safeguarding, or privacy of information are enacted, or if governmental agencies require us to substantially modify our privacy or security practices. We could fail to comply with international and domestic data privacy laws, the violation of which may result in audits, fines, penalties, litigation, or administrative enforcement actions with associated costs.

***Our operations are subject to numerous complex federal, state, provincial, local and foreign laws and regulations in a number of areas, including labor and employment, advertising, e-commerce, tax, trade, import and export requirements, economic and trade sanctions, anti-corruption, data privacy requirements (including those under the European Union General Data Protection Regulation and the California Consumer Privacy Act), anti-competition, environmental and health and safety.*** The evaluation of, and compliance with these laws, regulations and similar requirements may be onerous and expensive, and these laws and regulations may have other adverse impacts on our business, results of operations or cash flows. Furthermore, these laws and regulations are evolving and may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business, and the risk of noncompliance.

We have implemented policies and procedures designed to help ensure compliance with applicable laws and regulations, but there can be no guarantee against coworkers, contractors or agents violating such laws and regulations or our policies and procedures. As a public company, we also are subject to increasingly complex public disclosure, corporate governance and accounting requirements that increase compliance costs and require significant management focus.

***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 vendor partners. 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 vendor partners 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.

***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.

***The interest rate of our current credit facility is priced using LIBOR and is subject to risks associated with the transition from LIBOR to an alternative reference rate that could adversely affect our business, operating results, and financial condition.*** LIBOR is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. We use LIBOR as a reference rate in our current credit facility. In July 2017, the U. K.'s Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR and while the transition period for many LIBOR tenors has been extended to June 2023, the U.S. Federal Reserve advised banks to stop new LIBOR issuances. The Alternative Reference Rates Committee, a steering committee comprised of U.S. financial market participants, has identified the secured overnight financing rate, or SOFR, as the recommended alternative rate for all LIBOR. At this time, it is not possible to predict how markets will respond to SOFR or other alternative reference rates as the transition away from the LIBOR benchmarks is anticipated in coming years. Accordingly, the outcome of these reforms is uncertain and any changes in the methods by which LIBOR is determined or regulatory activity related to LIBOR's phaseout could cause LIBOR to perform differently than in the past or cease to exist. The consequences of these developments cannot be entirely predicted, but could include an increase in the cost of our borrowings under the current credit facility. Further, the consequences of these developments, or any alternative reference rate that is adopted, cannot be entirely predicted but could include an increase in the cost of 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 policies. 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.

#### **Financial Risks and Market Risks**

***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 Company’s goodwill and identifiable intangible assets could become impaired, which could reduce the value of its assets and reduce its net income in the year in which the write-off occurs.*** Goodwill represents the excess of the cost of an acquisition over the fair value of the assets acquired. The Company also ascribes value to certain identifiable intangible assets, which consist primarily of customer relationships and trade names, among others, as a result of acquisitions. The Company may incur impairment charges on goodwill or identifiable intangible assets if it determines that the fair values of the goodwill or identifiable intangible assets are less than their current carrying values. The Company evaluates, on a regular basis, whether events or circumstances have occurred that indicate all, or a portion, of the carrying amount of goodwill or identifiable intangible assets may no longer be recoverable, in which case an impairment charge to earnings would become necessary.

A decline in general economic conditions, a substantial increase in market interest rates, and increase in income tax rates, or the company’s inability to meet long-term working capital or operating income projections could impact future valuations of the Company’s reporting units, and the company could be required to record an impairment charge in the future, which could impact the company’s consolidated balance sheets, as well as the Company’s consolidated statements of operations.

***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. Trading volume in our Common Stock varies significantly based on a number of factors, which may be exacerbated by our repurchases of our Common Stock. As a result of the potentially low volume 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 tier of the Nasdaq Stock 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.

### **General Risk Factors**

**Global and regional economic and political conditions may have an adverse impact on our business.** Weak economic conditions generally, sustained uncertainty about global economic and political conditions, government spending cuts and the impact of new government policies, or a tightening of credit markets, could cause our customers and potential customers to postpone or reduce spending on technology products or services or put downward pressure on prices, which could have an adverse effect on our business, results of operations or cash flows. For example, there continues to be substantial uncertainty regarding the economic impact of the UK's exit from the European Union ("EU"), referred to as "Brexit". The UK formally withdrew from EU membership on January 31, 2020 and commenced a transition period during which the trading relationship between the UK and the EU will remain the same and the UK and EU will begin negotiations to determine their future relationship. Although the full effects of Brexit are uncertain and will be dependent on the outcome of such negotiations, potential adverse consequences of Brexit include global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between the UK and other countries, and increased regulatory complexities, each of which could have a negative impact on our business, financial condition or results of operations. These effects may be amplified if the UK and the EU fail to agree on a future trade relationship, which could result in significant market and economic disruption. We have established a presence in the Netherlands to help address future developments, as needed, for Brexit, which could add complexity to our European operations as well as result in higher costs associated with serving our customers following the transition period.

**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.

*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.

*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.

#### **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 April 2027. Total annual rent expense for this premise is approximately \$460,000. The Company subleases approximately 7,165 square feet of this space under a sublease expiring in April 2027. Total annual sublease income for this space is approximately \$150,000.

The Company also leases 7,800 square feet of warehouse space in Eatontown, New Jersey under a lease expiring in December 2023. Total annual rent expense for such warehouse space is approximately \$64,000. The Company also subleases a satellite office in Maryland. Total annual rent expense for the satellite office is approximately \$30,000. The Company also leases office space in the United Kingdom under a lease expiring in April 2026. Total annual rent expense for this premise is approximately \$65,000.

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**

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 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 tier of The Nasdaq Stock Market under the symbol "CLMB".

**Dividends**

In each of 2022 and 2021, 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 will depend upon future earnings, results of operations, capital requirements, our financial condition, contractual restrictions, including the terms of the agreements governing our debt and any future indebtedness we may incur and other relevant factors 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 9, 2023, there were approximately 19 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 banks, broker or other nominees.

## Purchases of Equity Securities

During the fourth quarter of 2022, 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, 2022 - October 31, 2022	—	\$ —	—	\$ —	545,786
November 1, 2022 - November 30, 2022	4,321 (1)	\$ 31.13	—	\$ —	545,786
December 1, 2022 - December 31, 2022	—	\$ —	—	\$ —	545,786
Total	4,321	\$ 31.13	—	\$ —	545,786

- (1) Represents 4,321 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. [Reserved]

## 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 Annual Report.*

### Overview

Our Company is a value added IT distribution and solutions company, primarily selling software and other third-party IT products and services through two reportable operating segments. Through our "Distribution" segment we sell products and services to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide,

who in turn sell these products to end users. Through our “Solutions” segment we act as a cloud solutions provider and value-added reseller, selling computer software and hardware developed by others and provide technical services directly to end user customers worldwide. We offer an extensive line of products from leading software vendors and tools for virtualization/cloud computing, security, networking, storage and infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware. We market these products through creative marketing communications, including our web sites, local and on-line seminars, webinars, social media, direct e-mail, and printed materials.

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

*Name Change of Wayside Technology Group, Inc. to Climb Global Solutions, Inc.*

On October 31, 2022, the Company, formerly known as “Wayside Technology Group, Inc.,” amended its organizational documents to change its name to “Climb Global Solutions, Inc.”

### **Factors Influencing Our Financial Results**

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

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

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

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

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

*Dividend Policy and Share Repurchase Program.* Historically we have sought to return value to investors through the payment of quarterly dividends and share repurchases. Total dividends paid and the dollar value of shares repurchased were \$3.0 million and \$0.7 million for the year ended December 31, 2022, respectively, and \$3.0 million and \$0.5 million for the year ended December 31, 2021, respectively. The payment of future dividends and any share repurchases are at the

discretion of our Board of Directors and dependent on results of operations, projected capital requirements and other factors the Board of Directors may find relevant.

*Stock Volatility.* The technology, distribution and services sectors of the United States stock markets is subject to substantial volatility. Numerous conditions which impact these sectors or the stock market in general or the Company in particular, whether or not such events relate to or reflect upon the Company's operating performance, could adversely affect the market price of the Company's Common Stock. Furthermore, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor partner 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.

*Inflation.* We have historically not been adversely affected by inflation, as abrupt changes in technology, rapid changes in customer preferences, short product life cycles and evolving industry standards within the IT industry have generally caused the prices of the products we sell to decline. This requires us to sell new products and have growth in unit sales of existing products in order to increase our net sales. We believe that most price increases could be passed on to our customers, as prices charged by us are not set by long-term contracts; however, as a result of competitive pressure, there can be no assurance that the full effect of any such price increases could be passed on to our customers or cause a reduction in our customers spending.

## **Financial Overview**

Net sales increased 8%, or \$21.7 million, to \$304.3 million for the year ended December 31, 2022, compared to \$282.6 million for the same period in 2021. Gross profit increased 18%, or \$8.4 million, to \$54.1 million for the year ended December 31, 2022, compared to \$45.7 million for the same period in 2021. Selling, general and administrative ("SG&A") expenses increased 6%, or \$2.0 million, to \$34.1 million for the year ended December 31, 2022, compared to \$32.1 million for the same period in 2021. Acquisition related costs for the year ended December 31, 2022 were \$0.6 million compared to no expense for the same period in 2021. Amortization and depreciation expense increased \$0.6 million to \$2.1 million for the year ended December 31, 2022 compared to \$1.5 million for the same period in the prior year. Net income increased 36%, or \$3.3 million, to \$12.5 million for the year ended December 31, 2022 compared to \$9.2 million for the same period in 2021. Income per diluted share increased 34%, or \$0.72, to \$2.81 for the year ended December 31, 2022 compared to \$2.09 for the same period in 2021.

## **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 and estimates 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

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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.

*Allowances 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, which is included in accounts payable and accrued expenses on the Consolidated Balance Sheets. If actual sales returns are greater than estimated by management, additional expense may be incurred.

*Accounts Receivable – Long Term*

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

*Inventory Allowances*

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

*Business Combinations*

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

*Goodwill*

We test goodwill for impairment on an annual basis and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company performs an evaluation of goodwill, utilizing either a qualitative or quantitative impairment test. The annual test for impairment is conducted as of October 1. The Company's reporting units included in the assessment of potential goodwill impairment are the same as its operating segments. Goodwill is not amortized but is subject to periodic testing for impairment at the reporting unit level.

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

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

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

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including net sales growth rates, gross profit margins, operating margins, discount rates and future market conditions, among others. Any changes in the judgments, estimates or assumptions used could produce significantly different results.

*Intangible Assets*

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

*Income Taxes*

The Company 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.

### Foreign Exchange

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

### Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("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. Effective January 1, 2023, the company will adopt the update using a modified retrospective approach with a cumulative-effect adjustment to retained earnings. The new credit loss standard is not expected to have a material effect on our financial position, results of operations or cash flows.

### 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,	
	2022	2021
Net sales	100 %	100 %
Cost of sales	82.2	83.8
Gross profit	17.8	16.2
Selling, general and administrative expenses	11.2	11.4
Acquisition related costs	0.2	—
Amortization and depreciation expense	0.7	0.5
Income from operations	5.7	4.3
Other income (expense)	(0.3)	0.1
Income before income taxes	5.4	4.4
Income tax provision	1.3	1.1
Net income	4.1 %	3.3 %

### 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,	December 31,
	2022	2021
<b>Reconciliation of net sales to adjusted gross billings (Non-GAAP):</b>		
Net sales	\$ 304,348	\$ 282,582
Costs of sales related to sales where the Company is an agent	760,310	652,396
Adjusted gross billings	<u>\$ 1,064,658</u>	<u>\$ 934,978</u>

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

	Year ended	
	December 31,	December 31,
	2022	2021
<b>Net income reconciled to adjusted EBITDA:</b>		
Net income	\$ 12,497	\$ 9,198
Provision for income taxes	4,035	3,166
Amortization and depreciation	2,054	1,529
Interest expense	71	68
EBITDA	<u>18,657</u>	<u>13,961</u>
Share-based compensation	1,897	1,546
Acquisition related costs	582	-
Adjusted EBITDA	<u>\$ 21,136</u>	<u>\$ 15,507</u>

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

**Key Financial Metrics**

	Year ended	
	December 31, 2022	December 31, 2021
Net sales	\$ 304,348	\$ 282,582
Adjusted gross billings (Non-GAAP)	\$ 1,064,658	\$ 934,978
Gross profit	\$ 54,094	\$ 45,716
Gross profit - Distribution	\$ 44,970	\$ 36,526
Gross profit - Solutions	\$ 9,124	\$ 9,190
Adjusted EBITDA (Non-GAAP)	\$ 21,136	\$ 15,507
Gross margin % - Adjusted gross billings (Non-GAAP)	5.1%	4.9%
Effective margin % - Adjusted EBITDA (Non-GAAP)	39.1%	33.9%

We consider gross profit growth and effective margin to be key metrics in evaluating our business. During the year ended December 31, 2022, gross profit increased 18%, or \$8.4 million, to \$54.1 million compared to \$45.7 million for the same period in 2021 while effective margin increased 520 basis points to 39.1% compared to 33.9% for the same period in 2021.

**Year Ended December 31, 2022 Compared to Year Ended December 31, 2021****Acquisition**

On August 18, 2022, we completed the acquisition of Spinnakar for an aggregate purchase price of approximately £9.8 million (equivalent to \$11.8 million USD), subject to certain working capital and other adjustments, paid at closing plus a potential post-closing earn-out. The operating results of Spinnakar are included in our operating results from the date of acquisition.

The Company recorded net revenue for Spinnakar of approximately \$6.0 million and net income of approximately \$0.4 million during the year ended December 31, 2022.

**Net Sales**

Net sales for the year ended December 31, 2022 increased 8%, or \$21.7 million, to \$304.3 million compared to \$282.6 million for the same period in 2021.

Adjusted gross billings, a non-GAAP financial measure, for the year ended December 31, 2022 increased 14%, or \$129.7 million, to \$1,064.7 million compared to \$935.0 million for the same period in 2021.

Net sales in our Distribution segment for the year ended December 31, 2022 increased 9%, or \$23.1 million, to \$282.5 million compared to \$259.4 million for the same period in the prior year. Adjusted gross billings for the Distribution segment for the year ended December 31, 2022 increased 15%, or \$126.5 million, to \$998.8 million compared to \$872.3 million for the same period in 2021. Net sales and adjusted gross billings increased due to organic growth at our existing vendor lines as well as the impact of the Spinnakar acquisition in the current year. Adjusted gross billings increased at a greater rate than net sales due to differences in the product mix between the two periods and an unfavorable impact of foreign exchange rates.

Net sales in our Solutions segment for the year ended December 31, 2022 decreased 6%, or \$1.4 million, to \$21.8 million compared to \$23.2 million for the prior year. Adjusted gross billings for the Solutions segment for the year ended

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December 31, 2022 increased 5%, or \$3.2 million, to \$65.9 million compared to \$62.7 million for the same period in 2021. Adjusted gross billings increased while net sales decreased due to differences in the product mix between the two periods.

During the year ended December 31, 2022, we relied on two key customers for a total of 37% of our total net sales. One major customer accounted for 21% and the other for 16%, of our total net sales during the year ended December 31, 2022. These same customers accounted for 16% and 18%, of total net accounts receivable as of December 31, 2022.

**Gross Profit**

Gross profit for the year ended December 31, 2022 increased 18%, or \$8.4 million, to \$54.1 million compared to \$45.7 million for the same period in 2021.

Distribution segment gross profit for the year ended December 31, 2022 increased 23%, or \$8.5 million, to \$45.0 million compared to \$36.5 million for the same period in 2021. The increase in Distribution segment gross profit resulted primarily from the organic growth at our existing vendor lines, impact of Spinnakar since the date of acquisition, lower early pay discounts and other rebates and discounts offered to our customers as a percentage of adjusted gross billings and increased rebates and discounts from our vendor partners.

Solutions segment gross profit for the year ended December 31, 2022, decreased 1%, or \$0.1 million, to \$9.1 million compared to \$9.2 million for the same period in 2021.

Customer rebates and discounts for the year ended December 31, 2022 were \$8.8 million compared to \$8.7 million for the same period in the prior year. As a percentage of adjusted gross billings, customer rebates and discounts decreased during the year ended December 31, 2022, compared to the same period in the prior year. Customer rebates and discounts vary based on terms of rebate and early pay discount programs offered to customers and timing of payments ultimately received from our customers.

Vendor rebates and discounts for the year ended December 31, 2022, were \$6.1 million compared to \$4.5 million for the same period in the prior year. As a percentage of adjusted gross billings, vendor rebates and discounts also increased during the year ended December 31, 2022 compared to the same period in the prior year. Vendor rebates are dependent on programs offered by our vendors and in some cases reaching certain volume targets set by our vendors or meeting certain early payment programs offered 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, 2022, increased 6%, or \$2.0 million, to \$34.1 million, compared to \$32.1 million for the same period in the prior year. The increase was primarily driven by higher payroll and related costs consistent with higher gross profit, including the impact of the Spinnakar acquisition. SG&A expenses were 3.5% of adjusted gross billings, a non-GAAP financial measure, for the year ended December 31, 2022, compared to 3.4% for the same period in the prior year.

The Company expects that its SG&A expenses, as a percentage of adjusted gross billings, a non-GAAP financial measure, 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 to support the growth of our business.

**Acquisition Related Costs**

Acquisition related costs for the year ended December 31, 2022 were \$0.6 million compared to no expense for the same period in the prior year. These expenses relate to costs incurred in conjunction with the acquisition of Spinnakar.

### **Foreign Currency Transaction Loss**

Foreign currency transaction loss for the year ended December 31, 2022 was \$0.9 million compared to a foreign currency transaction loss of \$0.1 million for the same period in the prior year. These expenses primarily relate to the change in the value of accounts payable and other monetary assets and liabilities denominated in currencies other than their functional currency between the date of origination and settlement.

### **Income Taxes**

For the year ended December 31, 2022, the Company recorded a provision for income taxes of \$4.0 million, or 24.4% of income before taxes, compared to \$3.2 million, or 25.6% of income before taxes for the same period in the prior year. The provision for income taxes in the prior year was impacted by a deferred tax adjustment due to an increase in the corporate tax rate in a foreign jurisdiction the Company operates in that will impact the rate at which deferred taxes are reversed in future periods.

### **Liquidity and Capital Resources**

Our cash and cash equivalents decreased by \$9.1 million to \$20.2 million at December 31, 2022 compared to \$29.3 million at December 31, 2021. Cash and cash equivalents decreasing was primarily the result of \$4.5 million of cash and cash equivalents provided by operating activities, offset by \$8.5 million payment for the Spinnakar acquisition, \$2.5 million of cash used in other investing activities, \$1.8 million of cash used in financing activities and \$0.7 million negative impact of foreign exchange rates on cash and cash equivalents.

Net cash provided by operating activities for the year ended December 31, 2022 was \$4.6 million, comprised of net income adjusted for non-cash items of \$16.3 million offset by changes in operating assets and liabilities of \$11.8 million.

Net cash and cash equivalents used in investing activities during the year ended December 31, 2022 was \$11.0 million, comprised of \$2.5 million of purchases of fixed assets and \$8.5 million payment for the Spinnakar acquisition, net of cash acquired. On August 18, 2022, we completed the acquisition of Spinnakar for an aggregate purchase price of approximately £9.8 million (equivalent to \$11.8 million USD), subject to certain working capital and other adjustments, paid at closing plus a potential post-closing earn-out. The Company financed the acquisition from existing cash on the balance sheet.

Net cash and cash equivalents used in financing activities during the year ended December 31, 2022 was \$1.8 million, comprised of borrowings under term loan, net of \$1.8 million, offset by dividend payments on our Common Stock of \$3.0 million and purchases of treasury stock of \$0.6 million.

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 545,786 shares of Common Stock as of December 31, 2022. The Common Stock repurchase program does not have an expiration date.

As of December 31, 2022, we held 806,068 shares of our Common Stock in treasury at an average cost of \$16.41 per share. As of December 31, 2021, we held 859,828 shares of our Common Stock in treasury at an average cost of \$16.13 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 (the "Loan Agreement"), Second Amended and Restated Revolving Credit Loan Note (the "Note"), Second Amended and Restated Security Agreement and Second Amended and Restated Pledge and Security Agreement. On August 31, 2020, the Company entered into an amendment to the Credit Facility (the "Amended Credit Facility") pursuant to a First

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Amendment to Second Amended and Restated Revolving Credit Loan Agreement and Other Loan Documents (the “Amended Loan Agreement”) and First Allonge to Second Amended and Restated Revolving Credit Loan Note (the “Amended Note”). The Amended Credit Facility, which will continue to be used for working capital and general corporate purposes, matures on June 30, 2023, at which time the Company must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any, fees, costs and expenses. The interest rate for any borrowings under the Amended Credit Facility is subject to change from time to time based on the changes in the LIBOR Rate, as defined in the Amended Loan Agreement (the “Index”). As of December 31, 2022 and 2021, the Company had no borrowings outstanding under the Credit Facility.

On April 13, 2021, Wayside Technology UK Holdings Limited (“Wayside UK”), a wholly-owned subsidiary of the Company, entered into an uncommitted short term credit facility of £8,000,000 (“Uncommitted Credit Facility”) with Citibank N.A., London Branch pursuant to certain terms and conditions. Obligations under the Uncommitted Credit Facility are guaranteed by the Company and will be used for working capital and general corporate purposes and have a maturity date of April 13, 2023, at which time Wayside UK must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any interest, fees, costs and expenses, if any. As of December 31, 2022 and 2021, no borrowings were outstanding under the Uncommitted Credit Facility.

On April 8, 2022, the Company entered into a \$2.1 million term loan (the “Term Loan”) with First American Commercial Bancorp, Inc. pursuant to a Master Loan and Security Agreement. The proceeds from the Term Loan will be used to fund certain capital expenditures. The borrowing under the Term Loan bears interest at a rate of 3.73% per annum and is being repaid over forty-eight monthly installments of principal and interest through April 2026. As of December 31, 2022, the Company had \$1.8 million outstanding under the Term Loan. There were no amounts outstanding under the Term Loan as of December 31, 2021.

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

**Foreign Exchange**

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

**Off-Balance Sheet Arrangements**

As of December 31, 2022, we did not have any off-balance sheet arrangements.

**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

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of the period covered by this Annual 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 Annual 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, the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that the Company's internal control over financial reporting was effective as of December 31, 2022.

The Company's independent registered public accounting firm, BDO USA, LLP, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2022, as stated in their report, which is included herein.

*Changes in Internal Control over Financial Reporting.* As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, has evaluated our internal control over financial reporting to determine whether any changes to our internal control over financial reporting occurred during the fourth quarter of the year ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, no such changes to our internal control over financial reporting occurred during the fourth quarter of the year ended December 31, 2022. As part of that evaluation, management identified changes in user access privileges that were implemented during the first quarter in 2022 at a component. These changes in user access privileges were made in response to identified control deficiencies to ensure that appropriate segregation of duties was maintained as it relates to the preparation and review of journal entries at that component.

**Item 9B. Other Information**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.**

Not applicable.

**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 2022 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A within 120 days of the end of the fiscal year to which this Annual Report relates (the "Definitive Proxy Statement") under the sections captioned "Election of Directors" and "Corporate Governance."

**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 Annual Report:
1. **Consolidated Financial Statements** (See Index to Consolidated Financial Statements on page F-1 of this Annual Report);
  2. **Financial Statement Schedule:**  
Schedule II Valuation and Qualifying Accounts

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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:**

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
2.1	<a href="#">Share Purchase Agreement, dated August 18, 2022, by and among the seller listed therein, and Wayside Technology UK Holding Limited. (14)</a>
3.1	Form of Amended and Restated Certificate of Incorporation of the Company. (1)
3.1(a)	<a href="#">Certificate of Amendment of Restated Certificate of Incorporation of the Company. (2)</a>
3.1(b)	<a href="#">Certificate of Amendment of Restated Certificate of Incorporation of the Company. (15)</a>
3.2	<a href="#">Amended and Restated Bylaws of the Company. (13)</a>
4.1	Specimen of Common Stock Certificate. (1)
4.3	<a href="#">Description of Securities. (filed herewith).</a>
10.1	<a href="#">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. (6)</a>
10.2	<a href="#">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. (6)</a>
10.3	<a href="#">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. (6)</a>
10.4	<a href="#">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. (6)</a>
10.5	<a href="#">First Amendment to Second Amended and Restated Revolving Credit Loan Agreement and Other Loan Documents, dated August 31, 2020, by and among Wayside Technology Group, Inc., Climb Channel Solutions, Inc., f/k/a Lifeboat Distribution, Inc., TechXtend, Inc., Programmer's Paradise, Inc., ISP International Software Partners, Inc., and Interwork Technologies, Inc., as Co-Borrowers, and Citibank, N.A., as Lender. (11)</a>
10.6	<a href="#">First Allonge to Second Amended and Restated Revolving Credit Loan Note, dated August 31, 2020, by and among Wayside Technology Group, Inc., Climb Channel Solutions, Inc., f/k/a Lifeboat Distribution, Inc., TechXtend, Inc., Programmer's Paradise, Inc., ISP International Software Partners, Inc., and Interwork Technologies Inc., as Co-Borrowers, and Citibank, N.A., as Lender. (11)</a>
10.7	<a href="#">Code of Ethics and Business Conduct. (7)</a>
10.8*	<a href="#">Employment agreement dated January 15, 2020 between the Company and Dale Foster. (8)</a>

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.9*	<a href="#">Employment agreement dated January 2, 2018 between the Company and Charles Bass. (9)</a>
10.10*	<a href="#">Employment agreement dated June 8, 2021 between the Company and Andrew Clark. (16)</a>
10.11*	<a href="#">Offer Letter, dated January 6, 2003, from the Company to Vito Legrottaglie. (4)</a>
10.12*	<a href="#">Form of Officer and Director Indemnification Agreement. (10)</a>
10.13*	<a href="#">2012 Stock-Based Compensation Plan. (5)</a>
10.14*	<a href="#">2021 Stock-Based Compensation Plan. (12)</a>
10.28*	<a href="#">Form of Non-Qualified Stock Option Agreement. (3)</a>
21.1	<a href="#">Subsidiaries of the Registrant. (filed herewith)</a>
23.1	<a href="#">Consent of BDO USA, LLP, an Independent Registered Public Accounting Firm. (filed herewith)</a>
31.1	<a href="#">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 (filed herewith).</a>
31.2	<a href="#">Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Andrew Clark, the Vice President and Chief Financial Officer of the Company (filed herewith).</a>
31.3	<a href="#">Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Matthew Sullivan, the Vice President and Chief Accounting Officer of the Company (filed herewith).</a>
32.1	<a href="#">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 (furnished herewith).</a>
32.2	<a href="#">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 Andrew Clark, the Vice President and Chief Financial Officer of the Company (furnished herewith).</a>
32.3	<a href="#">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 Matthew Sullivan, the Vice President and Chief Accounting Officer of the Company (furnished herewith).</a>
101	The following financial information from Climb Global Solutions, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 16, 2023, 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.
104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
(1)	Incorporated by reference to the 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.

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- (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 Exhibit 10.59 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 10.45 filed with the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 filed on May 15, 2007.
- (5) Incorporated by reference to Exhibit A of the Registrant's Definitive Annual Meeting Proxy Statement filed on April 24, 2012.
- (6) Incorporated by reference to the Registrant's Form 8-K filed on November 20, 2017.
- (7) Incorporated by reference to the Registrant's Form 8-K filed on December 8, 2017.
- (8) Incorporated by reference to the Registrant's Form 8-K filed on January 21, 2020.
- (9) Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the Period Ended March 31, 2020 filed May 8, 2020.
- (10) Incorporated by reference Exhibit 10.1 to 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 September 2, 2020.
- (12) Incorporated by reference to Appendix A of the Registrant's Definitive Annual Meeting Proxy Statement filed on April 16, 2021.
- (13) Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on December 8, 2022.
- (14) Incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on August 18, 2022.
- (15) Incorporated by reference to Exhibit 3.1(a) to the Registrant's Form 8-K filed on October 27, 2022.
- (16) Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on June 8, 2021.
- \* Compensatory plan or arrangement of management required to be filed as an exhibit to this Annual Report on Form 10-K.

**Item 16. Form 10-K Summary**

None.

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 16, 2023.

CLIMB GLOBAL SOLUTIONS, 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:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Dale Foster</u> Dale Foster	Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2023
<u>/s/ Andrew Clark</u> Andrew Clark	Vice President and Chief Financial Officer (Principal Financial Officer)	March 16, 2023
<u>/s/ Matthew Sullivan</u> Matthew Sullivan	Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 16, 2023
<u>/s/ Jeffrey Geygan</u> Jeffrey Geygan	Chairman of the Board of Directors	March 16, 2023
<u>/s/ John McCarthy</u> John McCarthy	Director	March 16, 2023
<u>/s/ Andrew Bryant</u> Andrew Bryant	Director	March 16, 2023
<u>/s/ Gerri Gold</u> Gerri Gold	Director	March 16, 2023
<u>/s/ Greg Scorziello</u> Greg Scorziello	Director	March 16, 2023
<u>/s/ Kimberly Boren</u> Kimberly Boren	Director	March 16, 2023

**Items 8 and 15(a)**

**Climb Global Solutions, Inc. and Subsidiaries**

**Index to Consolidated Financial Statements and Schedule**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders  
Climb Global Solutions, Inc.  
Eatontown, New Jersey

**Opinion on Internal Control over Financial Reporting**

We have audited Climb Global Solutions, Inc.'s (formerly known as Wayside Technology Group, Inc.) (the "Company") internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, 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, 2022, and the related notes and schedule and our report dated March 16, 2023 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Controls and Procedures. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Woodbridge, New Jersey  
March 16, 2023

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders  
Climb Global Solutions, Inc.  
Eatontown, New Jersey

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Climb Global Solutions, Inc. (formerly known as Wayside Technology Group, Inc.) (the “Company”) as of December 31, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 16, 2023 expressed an unqualified opinion thereon.

### **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 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.

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.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### **Acquisition**

As described in Note 3 of the consolidated financial statements, the Company completed the acquisition of Spinnakar Limited during the year ended December 31, 2022. The total purchase consideration for Spinnakar Limited was

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approximately \$13.6 million, inclusive of a \$1.8 million post-closing contingent earn-out. As a result of the acquisition, management determined the estimated fair value of the identifiable assets acquired and liabilities assumed at the acquisition date and recorded intangible assets of approximately \$11.7 million in aggregate. The primary intangible assets acquired were vendor relationships.

We identified the revenue projections, projected operating margin and the discount rate used in the determination of the fair value of certain acquired vendor relationships as a critical audit matter. The principal considerations for our determination included the subjectivity and judgment required to determine projected revenue, projected operating margin and the discount rate used to determine the fair value of certain vendor relationships acquired. Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Assessing the reasonableness of the revenue projections and projected operating margins for certain vendor relationships acquired by (i) evaluating historical performance of the acquired entity, (ii) obtaining publicly available information to evaluate management plans, (iii) performing a sensitivity analysis of the assumptions used in the discounted cash flow and evaluating the potential effect of changes in these assumptions, and iv) evaluating the consistency of forecasted amounts against information obtained through inquiries made of certain individuals.
- Utilizing professionals with specialized skills and knowledge to assist in (i) evaluating the appropriateness of the valuation model used by management, (ii) testing the mathematical accuracy of the Company's calculations, and (iii) evaluating the reasonableness of the discount rate used in the cash flow model for the determination of the fair value of certain acquired vendor relationships.

/s/ BDO USA, LLP

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

Woodbridge, New Jersey  
March 16, 2023

Climb Global Solutions, Inc. and Subsidiaries  
Consolidated Balance Sheets  
(Amounts in thousands, except share and per share amounts)

	December 31, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 20,245	\$ 29,272
Accounts receivable, net of allowance for doubtful accounts of \$842 and \$881, respectively	154,596	122,502
Inventory, net	4,766	2,022
Vendor prepayments and advances	890	661
Prepaid expenses and other current assets	4,141	4,871
<b>Total current assets</b>	<b>184,638</b>	<b>159,328</b>
Equipment and leasehold improvements, net	3,515	1,932
Goodwill	18,963	17,188
Other intangibles, net	19,693	9,950
Right-of-use assets, net	1,235	1,628
Accounts receivable-long-term, net	3,114	78
Other assets	350	459
Deferred income tax assets	348	189
<b>Total assets</b>	<b>\$ 231,856</b>	<b>\$ 190,752</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 160,650	\$ 134,271
Lease liability, current portion	521	475
Term loan, current portion	520	—
<b>Total current liabilities</b>	<b>161,691</b>	<b>134,746</b>
Lease liability, net of current portion	1,296	1,810
Deferred income tax liabilities	4,137	1,780
Term loan, net of current portion	1,292	—
Non-current liabilities	2,866	—
<b>Total liabilities</b>	<b>171,282</b>	<b>138,336</b>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.01 par value per share; 10,000,000 shares authorized; 5,284,500 shares issued; 4,478,432 and 4,424,672 shares outstanding, respectively	53	53
Additional paid-in capital	32,715	32,087
Treasury stock, at cost, 806,068 and 859,828 shares, respectively	(13,230)	(13,870)
Retained earnings	43,904	34,396
Accumulated other comprehensive loss	(2,868)	(250)
<b>Total stockholders' equity</b>	<b>60,574</b>	<b>52,416</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 231,856</b>	<b>\$ 190,752</b>

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

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Climb Global Solutions, Inc. and Subsidiaries  
Consolidated Statements of Earnings  
(Amounts in thousands, except per share amounts)

	Year ended December 31,	
	2022	2021
Net sales	\$ 304,348	\$ 282,582
Cost of sales	<u>250,254</u>	<u>236,866</u>
Gross profit	54,094	45,716
Selling, general, and administrative expenses	34,144	32,136
Acquisition related costs	582	—
Amortization and depreciation expense	<u>2,054</u>	<u>1,529</u>
Income from operations	17,314	12,051
Other income:		
Interest, net	159	359
Foreign currency transaction loss	(941)	(46)
Income before provision for income taxes	<u>16,532</u>	<u>12,364</u>
Provision for income taxes	<u>4,035</u>	<u>3,166</u>
Net income	<u>\$ 12,497</u>	<u>\$ 9,198</u>
Income per common share-Basic	<u>\$ 2.81</u>	<u>\$ 2.09</u>
Income per common share-Diluted	<u>\$ 2.81</u>	<u>\$ 2.09</u>
Weighted average common shares outstanding — Basic	<u>4,331</u>	<u>4,272</u>
Weighted average common shares outstanding — Diluted	<u>4,331</u>	<u>4,272</u>
Dividends paid per common share	<u>\$ 0.68</u>	<u>\$ 0.68</u>

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

Climb Global Solutions, Inc. and Subsidiaries  
Consolidated Statements of Comprehensive Income  
(Amounts in thousands)

	Year ended December 31,	
	2022	2021
Net income	\$ 12,497	\$ 9,198
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(2,618)	492
Other comprehensive (loss) income	(2,618)	492
Comprehensive income	<u>\$ 9,879</u>	<u>\$ 9,690</u>

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

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Climb Global Solutions, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
(Amounts in thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Treasury		Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount		Shares	Amount			
<b>Balance at January 1, 2021</b>	5,284,500	53	31,962	922,503	(14,747)	28,191	(742)	44,717
Net income	—	—	—	—	—	9,198	—	9,198
Translation adjustment	—	—	—	—	—	—	492	492
Dividends paid	—	—	—	—	—	(2,993)	—	(2,993)
Share-based compensation expense	—	—	1,546	—	—	—	—	1,546
Restricted stock grants (net of forfeitures)	—	—	(1,421)	(83,963)	1,421	—	—	—
Treasury shares repurchased	—	—	—	21,288	(544)	—	—	(544)
<b>Balance at December 31, 2021</b>	5,284,500	53	32,087	859,828	(13,870)	34,396	(250)	52,416
Net income	—	—	—	—	—	12,497	—	12,497
Translation adjustment	—	—	—	—	—	—	(2,618)	(2,618)
Dividends paid	—	—	—	—	—	(2,989)	—	(2,989)
Share-based compensation	—	—	1,923	—	—	—	—	1,923
Restricted stock grants (net of forfeitures)	—	—	(1,295)	(74,449)	1,295	—	—	—
Treasury shares repurchased	—	—	—	20,689	(655)	—	—	(655)
<b>Balance at December 31, 2022</b>	5,284,500	\$ 53	\$ 32,715	806,068	\$ (13,230)	\$ 43,904	\$ (2,868)	\$ 60,574

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

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Climb Global Solutions, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(Amounts in thousands)

	Year ended December 31,	
	2022	2021
<b>Cash flows from operating activities</b>		
Net income	\$ 12,497	\$ 9,198
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization expense	2,066	1,534
Provision for doubtful accounts	19	26
Deferred income tax (benefit) expense	(535)	228
Share-based compensation expense	1,897	1,546
Amortization of discount on accounts receivable	(109)	(55)
Amortization of right-of-use assets	426	468
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(35,826)	(28,577)
Inventory	(2,751)	2,914
Prepaid expenses and other current assets	1,025	(1,004)
Vendor prepayments	(230)	574
Accounts payable and accrued expenses	25,411	18,616
Lease liability, net	(503)	(534)
Other assets and liabilities	1,174	(222)
Net cash and cash equivalents provided by operating activities	<u>4,561</u>	<u>4,712</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment and leasehold improvements	(2,502)	(258)
Payment for acquisitions, net of cash acquired	(8,511)	—
Net cash and cash equivalents used in investing activities	<u>(11,013)</u>	<u>(258)</u>
<b>Cash flows from financing activities</b>		
Purchase of treasury stock	(655)	(544)
Borrowings under term loan	2,148	—
Repayments of borrowings under term loan	(336)	—
Dividends paid	(2,989)	(2,993)
Contingent consideration	—	(862)
Net cash and cash equivalents used in financing activities	<u>(1,832)</u>	<u>(4,399)</u>
Effect of foreign exchange rate on cash and cash equivalents	<u>(743)</u>	<u>(131)</u>
Net decrease in cash and cash equivalents	(9,027)	(76)
Cash and cash equivalents at beginning of period	29,272	29,348
Cash and cash equivalents at end of period	<u>\$ 20,245</u>	<u>\$ 29,272</u>
<b>Supplementary disclosure of cash flow information:</b>		
Income taxes paid	\$ 4,278	\$ 2,700
Interest paid	50	43

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

Climb Global Solutions, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Amounts in tables in thousands, except share and per share amounts)

**Note 1. Description of Business**

Climb Global Solutions, Inc. (formerly known as 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 is a cloud solutions provider and value-added reseller of software, hardware and services to customers worldwide. The Company also operates in Canada, the United Kingdom and Europe. The Company offers 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 is organized into two reportable operating segments. The “Distribution” segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide under the name “Climb Channel Solutions”. The “Solutions” segment is a cloud solutions provider and value-added reseller of software, hardware and services to customers worldwide under the names “Grey Matter”.

**Note 2. Summary of Significant Accounting Policies**

**Principles of Consolidation and Operations**

The consolidated financial statements include the accounts of Climb Global Solutions, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

**Business Combinations**

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

**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, amortization of intangible assets, 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

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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,	
	2022	2021
Numerator:		
Net income	\$ 12,497	\$ 9,198
Less distributed and undistributed income allocated to participating securities	317	269
Net income attributable to common shareholders	12,180	8,929
Denominator:		
Weighted average common shares (Basic)	4,331	4,272
Weighted average common shares including assumed conversions (Diluted)	4,331	4,272
Basic net income per share	\$ 2.81	\$ 2.09
Diluted net income per share	\$ 2.81	\$ 2.09

### **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.

### **Allowances for Accounts Receivable**

We provide an allowance 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 also record an estimate for sales returns based on historical experience, which is included in accounts payable and accrued expenses on the Consolidated Balance Sheets. If actual sales returns are greater than estimated by management, an additional return allowance may be required as an offset to net sales.

### **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 loss, which

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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.

For foreign currency remeasurement from each local currency into the appropriate functional currency, monetary assets and liabilities are remeasured to functional currencies using current exchange rates in effect at the balance sheet date. Gains or losses from these remeasurements have been included in the Company's Consolidated Statements of Earnings. Non-monetary assets and liabilities are recorded at historical exchange rates.

### **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, 2022 and 2021, because of the relative short maturity of these instruments. The Company's accounts receivable-long-term is discounted to its present value at prevailing market rates at the time of sale which, approximates fair value as of December 31, 2022 and 2021.

### **Inventory**

Inventory, consisting primarily of finished products held for resale, is valued based on the first-in-first-out method of accounting and is stated at the lower of cost or net realizable value.

### **Vendor Prepayments and Advances**

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 or fair value, if purchased as part of a business combination. 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.

### **Software Development Costs**

The Company capitalizes certain internal and external costs incurred to acquire or create internal-use software. Capitalized software costs are amortized on a straight-line basis over the estimated useful life of the software, which is generally four to seven years. At December 31, 2022 and 2021, the Company had unamortized software development costs of \$2.4 million and \$0.7 million, respectively, which are included in "Equipment and leasehold improvements" in the Company's Consolidated Balance Sheets. As of December 31, 2022, this includes \$2.3 million for an internal-use software project that amortization expense has not yet been recognized for as the internal-use software is not ready for its intended use. As of December 31, 2021, there were no such costs capitalized for this project.

### **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.

### **Goodwill**

We test goodwill for impairment on an annual basis and between annual tests if an event occurs, or circumstances change, that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company performs an evaluation of goodwill, utilizing either a qualitative or quantitative impairment test. The annual test for impairment is conducted as of October 1. The Company's reporting units included in the assessment of potential goodwill impairment are the same as its operating segments. Goodwill is not amortized but is subject to periodic testing for impairment at the reporting unit level.

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

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

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

Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including net sales growth rates, gross profit margins, operating margins, discount rates and future market conditions, among others. Any changes in the judgments, estimates or assumptions used could produce significantly different results.

### **Intangible Assets**

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

## **Comprehensive Income**

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

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

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

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

The Company disaggregates its operating revenue by segment, geography and timing of revenue recognition, which the Company believes provides a meaningful depiction of the nature of its revenue. For additional information, see Note 13 (Industry, Segment and Geographic Information).

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

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

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Generally, software products are sold with accompanying third-party delivered software assurance, which is a product that allows customers to upgrade, at no additional cost, to the latest technology if new capabilities are introduced during the period that the software assurance is in effect. The Company evaluates whether the software assurance is a separate performance obligation by assessing if the third-party delivered software assurance is critical or essential to the core functionality of the software itself. This involves considering if the software provides its original intended functionality to the customer without the updates, if the customer would ascribe a higher value to the upgrades versus the up-front deliverable, if the customer would expect frequent intelligence updates to the software (such as updates that maintain the original functionality), and if the customer chooses to not delay or always install upgrades. If the Company determines that the accompanying third-party delivered software assurance is critical or essential to the core functionality of the software license, the software license and the accompanying third-party delivered software assurance are recognized as a single performance obligation. The value of the product is primarily the accompanying support delivered by a third party and therefore the Company is acting as an agent in these transactions and recognizes them on a net basis at the point the associated software license is delivered to the customer. The Company sells cloud computing solutions that utilize third-party vendors to enable customers to access data center functionality in a cloud-based solution, including storage, computing and networking and access to software in the cloud that enhances office productivity, provides security or assists in collaboration. The Company recognizes revenue for cloud computing solutions for arrangements with one-time invoicing to the customer at the time of invoice on a net basis as the Company is acting as an agent in the transaction. For monthly subscription-based arrangements, the Company is acting as an agent in the transaction and recognizes revenue as it invoices the customer for its monthly usage on a net basis. For software licenses where the accompanying third-party delivered software assurance is not critical or essential to the core functionality, the software assurance is recognized as a separate performance obligation, with the associated revenue recognized on a net basis at the point the related software license is delivered to the customer.

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

### **Freight**

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

### **Commissions**

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

### **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.

### **Operating Segments**

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in

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assessing performance. The Company's operations are classified into two reportable business segments: Distribution and Solutions. For additional information, see Note 13 (Industry, Segment and Geographic Information).

### **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.

### **Interest, net**

Interest, net consists primarily of income from the amortization of the discount on accounts receivable long term, net of interest expense that is inclusive of fees associated with 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.

### **Foreign Exchange**

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

### **Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326)*" ("ASU 2016-13"). ASU 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. Originally, ASU 2016-13 was effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. In November 2019, FASB issued ASU 2019-10, "*Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*." This ASU defers the effective date of ASU 2016-13 for public companies that are considered smaller reporting companies as defined by the SEC to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Effective January 1, 2023, the company will adopt the update using a modified retrospective approach with a cumulative-effect adjustment to retained earnings. The new credit loss standard is not expected to have a material effect on our financial position, results of operations or cash flows.

**3. Acquisition**

*Acquisition of Spinnakar Limited*

On August 18, 2022, the Company entered into a Share Purchase Agreement and purchased the entire share capital of Spinnakar Limited (“Spinnakar”) for an aggregate purchase price of approximately £9.8 million (equivalent to \$11.8 million USD), subject to certain working capital and other adjustments, paid at closing plus a potential post-closing earn-out. The allocation of the purchase price was based upon the estimated fair value of Spinnakar’s net tangible and identifiable intangible assets as of the date of the acquisition. The transaction was accounted for under the purchase method of accounting.

The financial position and operating results of Spinnakar is included in the Company’s consolidated financial statements from the date of acquisition. The Company recorded net revenue for Spinnakar of approximately \$6.0 million and net income of approximately \$0.4 million during the year ended December 31, 2022.

The impact of the acquisition’s preliminary purchase price allocations on the Company’s consolidated balance sheet and the acquisition date fair value of the total consideration transferred is depicted in the table below. Due to the timing of the closing of the transaction in the third quarter of 2022, the Company has not yet completed its evaluation and determination of certain assets acquired and liabilities assumed, primarily the final valuation of goodwill and intangible assets and the final evaluation and assessment of income tax accounts; therefore, the final fair value of the assets acquired and liabilities assumed, which will be completed within the measurement period of up to one year from the acquisition date, may vary from the Company’s preliminary estimates:

<b>(in thousands)</b>	
Cash	\$ 3,325
Trade accounts receivable	1,852
Other current assets	367
Vendor relationships (10.4-year weighted average useful life)	11,687
Goodwill	3,244
Accounts payable and other current liabilities	(3,977)
Deferred income tax liabilities	(2,892)
<b>Net assets</b>	<b>\$ 13,606</b>
<b>(in thousands)</b>	
<b>Supplementary information:</b>	
Cash paid to sellers	\$ 11,836
Contingent earn-out	1,771
<b>Total purchase consideration</b>	<b>\$ 13,607</b>
Cash paid to sellers	11,836
Cash acquired in acquisition	(3,325)
<b>Net cash paid for acquisition</b>	<b>\$ 8,511</b>

Intangible assets are comprised of approximately \$11.7 million of vendor relationships with a weighted average amortization period of 10.4 years, representing the expected period of benefits. Goodwill, which was allocated to the Distribution segment, is the excess of the consideration transferred over the net assets recognized and represents the expected revenue and cost synergies of the combined company and assembled workforce. Goodwill recognized as a result of the acquisition is not deductible for income tax purposes.

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The purchase consideration includes approximately \$1.8 million fair value for potential earn-out consideration if certain targets are achieved, payable in cash. The earn-out liability is included in non-current liabilities as of December 31, 2022, as any payments upon achievement of the certain targets wouldn't be due within the next 12 months.

The Company incurred acquisition related costs of approximately \$0.6 million during the year ended December 31, 2022 in conjunction with the Spinnakar acquisition, which is reflected in the accompanying consolidated statements of earnings. There were no acquisition related costs incurred during the year ended December 31, 2021.

**4. Goodwill and Other Intangible Assets**

Goodwill represents the premium paid over the fair value of the net tangible and intangible assets that are individually identified and separately recognized in business combinations. The following table summarizes the changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021.

Balance at January 1, 2021	\$ 16,816
Translation adjustments	372
Balance December 31, 2021	<u>\$ 17,188</u>
Goodwill acquired	3,244
Translation adjustments	(1,469)
Balance at December 31, 2022	<u>\$ 18,963</u>

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

	<u>As of December 31, 2022</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Customer and vendor relationships	\$ 21,457	2,165	19,292
Trade name	468	67	401
Total	<u>\$ 21,925</u>	<u>\$ 2,232</u>	<u>\$ 19,693</u>

	<u>As of December 31, 2021</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Customer and vendor relationships	\$ 10,550	\$ 1,079	\$ 9,471
Trade name	519	40	479
Total	<u>\$ 11,069</u>	<u>\$ 1,119</u>	<u>\$ 9,950</u>

Customer relationships are amortized over thirteen years. Vendor relationships are amortized between eight and fifteen years. Trade name is amortized over fifteen years.

The Company recognized total amortization expense for other intangibles, net of \$1.2 million and \$0.9 million during the years ended December 31, 2022 and 2021, respectively.

Estimated future amortization expense of the Company's other intangibles, net as of December 31, 2022 is as follows:

2023	1,875
2024	1,875
2025	1,875
2026	1,875
2027	1,875
Thereafter	10,318
Total	<u>\$ 19,693</u>

## 5. 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,	
	2022	2021
Cash paid for operating lease liabilities	\$ 647	\$ 598
Right-of-use assets obtained in exchange for new operating lease obligations	\$ 63	\$ 163
Weighted-average remaining lease term	3.9 years	5.1 years
Weighted-average discount rate	3.5%	3.5%

Maturities of lease liabilities as of December 31, 2022 were as follows:

2023	624
2024	540
2025	548
2026	546
2027	125
	<u>2,383</u>
Less: imputed interest	(566)
Total lease liabilities	<u>\$ 1,817</u>
Lease liabilities, current portion	521
Lease liabilities, net of current portion	1,296
Total lease liabilities	<u>\$ 1,817</u>

**6. Balance Sheet Detail**

Equipment and leasehold improvements, net consist of the following:

	December 31, 2022	December 31, 2021
Equipment	\$ 2,720	\$ 2,627
Capitalized software	2,997	816
Leasehold improvements	1,848	1,762
	7,565	5,205
Less accumulated depreciation and amortization	(4,050)	(3,273)
	<u>\$ 3,515</u>	<u>\$ 1,932</u>

Depreciation expense relating to equipment and leasehold improvements, net was \$0.4 million and \$0.5 million during the years ended December 31, 2022 and 2021, respectively. Amortization expense relating to capitalized software was \$0.4 million and \$0.1 million during the years ended December 31, 2022 and 2021.

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

	December 31, 2022	December 31, 2021
Total amount due from customers	\$ 5,213	\$ 484
Less: unamortized discount	(188)	(8)
Less: current portion included in accounts receivable	(1,911)	(398)
	<u>\$ 3,114</u>	<u>\$ 78</u>

Accounts payable and accrued expenses consist of the following:

	December 31, 2022	December 31, 2021
Trade accounts payable	\$ 151,180	\$ 125,908
Accrued expenses	9,470	8,363
	<u>\$ 160,650</u>	<u>\$ 134,271</u>

Accumulated other comprehensive loss consists of the following:

	December 31, 2022	December 31, 2021
Foreign currency translation adjustments	\$ (2,618)	\$ 492
	<u>\$ (2,618)</u>	<u>\$ 492</u>

**7. Income Taxes**

Deferred tax attributes resulting from differences between the tax basis of assets and liabilities and the reported amounts in the Consolidated Balance Sheets are as follows:

	<u>December 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<b>Deferred tax assets:</b>		
Accruals and reserves	\$ 631	\$ 501
Deferred rent credit	146	163
Depreciation and amortization	38	24
Total deferred tax assets	<u>815</u>	<u>688</u>
<b>Deferred tax liabilities:</b>		
Accruals and reserves	—	(67)
Depreciation and amortization	(4,604)	(2,212)
Total deferred tax liabilities	<u>(4,604)</u>	<u>(2,279)</u>
<b>Net deferred tax liabilities</b>	<u>\$ (3,789)</u>	<u>\$ (1,591)</u>

The provision for income taxes is as follows:

	<u>Year ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
<b>Current:</b>		
Federal	\$ 2,694	\$ 1,692
State	622	572
Foreign	1,254	674
	<u>4,570</u>	<u>2,938</u>
<b>Deferred:</b>		
Federal	(124)	(45)
State	(30)	(12)
Foreign	(381)	285
	<u>(535)</u>	<u>228</u>
	<u>\$ 4,035</u>	<u>\$ 3,166</u>
Effective Tax Rate	<u>24.4 %</u>	<u>25.6 %</u>

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:

	<u>Year ended December 31,</u>	
	<u>2022</u>	<u>2021</u>
Statutory rate applied to pretax income	\$ 3,472	\$ 2,596
State income taxes, net of federal income tax benefit	468	442
Other permanent items	156	19
Foreign income taxes over U.S. statutory rate	137	(18)
Other items	11	(36)
Adjustment for foreign rate change	—	353
Dividends	(9)	(17)
GILTI, net of foreign tax credits	(50)	(38)
Stock compensation	(150)	(135)
Income tax expense	<u>\$ 4,035</u>	<u>\$ 3,166</u>

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The Company has analyzed filing positions in all the federal, state and foreign 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 returns, its Canadian tax return and its tax return in the United Kingdom as major tax jurisdictions. As of December 31, 2022, the Company's 2019 through 2021 Federal tax returns remain open for examination. The Company's various states and Canadian tax returns are open for examination for the years 2018 through 2021. The Company's tax return in the United Kingdom is open for examination for the years 2020 and 2021. 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,	
	2022	2021
United States	\$ 12,968	\$ 9,355
Foreign	3,564	3,009
	<u>\$ 16,532</u>	<u>\$ 12,364</u>

The Company has approximately \$8.0 million of undistributed earnings in Canada and \$1.5 million of undistributed earnings in the United Kingdom, which it continues to reinvest indefinitely, and therefore no withholding taxes related to its repatriation has been recorded.

There was no activity related to the Company's unrecognized tax benefits during the year ended December 31, 2022. The following table summarizes the activity related to the Company's unrecognized tax benefits as of December 31, 2021:

	2021
Balance as of January 1	\$ 49
Additions related to prior period tax positions	-
Reductions related to settlements with tax authorities	(49)
Balance as of December 31	<u>\$ -</u>

During the years ended December 31, 2022 and 2021, the Company incurred interest and penalties of zero, respectively, related to these uncertain tax benefits.

## **8. Credit Facility**

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

The Amended Credit Facility, which will continue to be used for working capital and general corporate purposes, matures on June 30, 2023, at which time the Company must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any, fees, costs and expenses. In addition, the Company will pay regular monthly payments of all accrued and unpaid interest. The interest rate for any borrowings under the Amended Credit Facility is subject to change from time to time based on the changes in the LIBOR Rate, as defined in the Amended Loan Agreement,

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with the LIBOR Rate not to be less than 0.75 percentage points. Interest on the unpaid principal balance of the Amended Note will be calculated using a rate of 1.75 percentage points over the LIBOR Rate. If the LIBOR Rate becomes unavailable during the term of the Amended Credit Facility, interest will be based upon the Benchmark Replacement (as defined in the Amended Loan Agreement) selected by Citibank after notifying the Company. The Amended Credit Facility is secured by the assets of the Company.

At December 31, 2022 and 2021, the Company had no borrowings outstanding under the Credit Facility. The Company incurred \$0.1 million of interest expense, related to the Credit Facility during the years ended December 31, 2022 and 2021, respectively.

On April 13, 2021, Wayside Technology UK Holdings Limited (“Wayside UK”), a wholly-owned subsidiary of the Company, entered into an uncommitted short term credit facility of £8 million (“Uncommitted Credit Facility”) with Citibank N.A., London Branch (“Citibank London”) pursuant to certain terms and conditions. Obligations under the Uncommitted Credit Facility are guaranteed by the Company and will be used for working capital and general corporate purposes and have a maturity date of April 13, 2023, at which time Wayside UK must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any interest, fees, costs and expenses, if any.

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

At December 31, 2022 and 2021, Wayside UK had no borrowings outstanding under the Uncommitted Credit Facility.

On April 8, 2022, the Company entered into a \$2.1 million term loan (the “Term Loan”) with First American Commercial Bancorp, Inc. pursuant to a Master Loan and Security Agreement. The proceeds from the Term Loan will be used to fund certain capital expenditures. The borrowing under the Term Loan bears interest at a rate of 3.73% per annum and is being repaid over forty-eight monthly installments of principal and interest through April 2026.

As of December 31, 2022, the Company had \$1.8 million outstanding under the Term Loan. There were no amounts outstanding under the Term Loan as of December 31, 2021.

As of December 31, 2022, future principal payments under the Term Loan are as follows:

<b>Year ended December 31,</b>	
2023	520
2024	540
2025	560
2026	192
<b>Total</b>	<b>\$ 1,812</b>

## **9. Stockholders' Equity and Stock-Based Compensation**

The 2021 Omnibus Incentive Plan (the “2021 Plan”) authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The 2021 Plan was approved by the Company’s stockholders at the 2021 Annual Meeting in June 2021. The total number of shares of the Company’s common stock, par value \$0.01 per share (“Common Stock”) initially available for award under the 2021 Plan was 500,000 shares. As of December 31, 2022, the number of shares of Common Stock available for future award grants to employees, officers and directors under the 2021 Plan is 373,594.

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The 2012 Stock-Based Compensation Plan (the “2012 Plan”) authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The total number of shares of the Company’s Common Stock initially available for award under the 2012 Plan was 600,000, which was increased to 1,000,000 shares by stockholder approval at the Company’s 2018 Annual Meeting in June 2018. Immediately prior to the replacement of the 2012 Plan by the 2021 Plan, there were 352,158 shares of Common Stock available under the 2012 Plan. The 2012 Plan has been replaced by the 2021 Plan and none of the remaining shares of Common Stock authorized under the 2012 Plan will be transferred to or used under the 2021 Plan nor will any awards under the 2012 Plan that are forfeited increase the shares available for awards under the 2021 Plan. As of December 31, 2022, the number of shares of Common Stock available under the 2012 Plan is zero.

During the year ended December 31, 2022, the Company granted a total of 78,505 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, 2022, 4,056 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During the year ended December 31, 2021, the Company granted a total of 106,122 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, 2021, 22,159 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

There was no options activity during the year ended December 31, 2022 and 2021 and there were no options outstanding or exercisable at December 31, 2022 and 2021, respectively, under both the Company’s 2012 Plan and 2021 Plan.

Under the various plans, options that are cancelled can be reissued. At December 31, 2022, 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, 2022, and 2021 and changes during the years ended December 31, 2022 and 2021 is as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested shares at January 1, 2021	122,792	\$ 13.37
Granted in 2021	106,122	22.96
Vested in 2021	(84,653)	17.47
Forfeited in 2021	(22,159)	16.14
Nonvested shares at December 31, 2021	<u>122,102</u>	<u>\$ 18.35</u>
Granted in 2022	78,505	31.83
Vested in 2022	(75,492)	21.93
Forfeited in 2022	(4,056)	19.20
Nonvested shares at December 31, 2022	<u>121,059</u>	<u>\$ 24.83</u>

As of December 31, 2022, there was approximately \$2.8 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 2.3 years.

For the years ended December 31, 2022 and 2021, the Company recognized share-based compensation cost of approximately \$1.9 million and \$1.5 million, respectively, which is included in selling, general and administrative expenses.

## **10. Defined Contribution Plan**

The Company maintains a defined contribution plan covering substantially all 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, 2022 and 2021, the Company expensed approximately \$0.3 million, respectively, related to this plan.

## **11. Commitments and Contingencies**

### **Employment Agreements**

The Company has entered into employment agreements with four 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, 2022, 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 8 (Credit Facility). Other than employment agreements, other management compensation arrangements and related party transactions as disclosed in Note 12, the Company is not engaged in any other transactions with related parties.

## **12. Related Party Transactions**

The Company made sales to a customer where a member of our Board of Directors was formerly an executive. This member of our Board of Directors employment with the customer ended during the second quarter of fiscal 2022 and prior to this member of Board of Directors employment ending, net sales to this customer totaled approximately \$0.2 million, which was subsequently collected in full. During the year ended December 31, 2021, net sales to this customer totaled \$0.3 million and amounts due from this customer as of December 31, 2021 totaled zero.

The Company made sales to a customer where a family member of one of our executive's has a minority ownership position. During the year ended December 31, 2022 and 2021, net sales to this customer totaled \$1.8 million and \$0.4 million, respectively, and amounts due from this customer as of December 31, 2022 and 2021 totaled \$0.1 million and \$0.2 million, respectively. The Company also accrued referral fees totaling zero and \$0.2 million to this customer during the year ended December 31, 2022 and 2021, respectively, and amounts owed to this customer for these referral fees as of December 31, 2022 and 2021 totaled zero and \$0.1 million, respectively.

## **13. 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 worldwide.

FASB ASC Topic 280, "Segment Reporting," requires that public companies report profits and losses and certain other information on their "reportable operating segments" in their annual and interim financial statements. The internal organization used by the public company's Chief Operating Decision Maker (CODM) to assess performance and allocate resources determines the basis for reportable operating segments. The Company's CODM is the Chief Executive Officer.

The Company is organized into two reportable operating segments. The "Distribution" segment distributes technical software to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide.

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The “Solutions” segment is a cloud solutions provider and value-added reseller of software, hardware and services to customers worldwide.

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

Segment income is based on segment net sales less the respective segment’s cost of sales as well as segment direct costs (including such items as payroll costs and payroll related costs, such as profit sharing, incentive awards and insurance) and excluding general and administrative expenses not attributed to an individual segment business unit. The Company only identifies accounts receivable, vendor prepayments and inventory by segment as shown below as “Selected Assets” by segment; it does not allocate its other assets, including capital expenditures by segment. The following segment reporting information of the Company is provided:

	<b>Year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Net Sales:</b>		
Distribution	\$ 282,509	\$ 259,360
Solutions	21,839	23,222
	<u>304,348</u>	<u>282,582</u>
<b>Gross Profit:</b>		
Distribution	\$ 44,970	\$ 36,526
Solutions	9,124	9,190
	<u>54,094</u>	<u>45,716</u>
<b>Direct Costs:</b>		
Distribution	\$ 15,804	\$ 14,610
Solutions	4,296	4,741
	<u>20,100</u>	<u>19,351</u>
<b>Segment Income Before Taxes: (1)</b>		
Distribution	\$ 29,166	\$ 21,916
Solutions	4,828	4,449
<b>Segment Income Before Taxes</b>	<u>33,994</u>	<u>26,365</u>
General and administrative	\$ 14,044	\$ 12,785
Amortization and depreciation expense	2,054	1,529
Acquisition related costs	582	—
Interest, net	159	359
Foreign currency transaction loss	(941)	(46)
<b>Income before taxes</b>	<u>\$ 16,532</u>	<u>\$ 12,364</u>

(1) Excludes general corporate expenses including acquisition related costs, amortization and depreciation expense, interest, and foreign currency transaction (loss) gain.

<b>Selected Assets by Segment:</b>	<b>As of</b>	<b>As of</b>
	<b>December 31,</b>	<b>December 31,</b>
	<b>2022</b>	<b>2021</b>
Distribution	\$ 180,602	\$ 133,506
Solutions	21,420	18,895
<b>Segment Select Assets</b>	<u>202,022</u>	<u>152,401</u>
Corporate Assets	29,834	38,351
<b>Total Assets</b>	<u>\$ 231,856</u>	<u>\$ 190,752</u>

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Geographic areas and net sales mix related to operations for the year ended December 31, 2022 and 2021 were as follows. Net sales is allocated to a geographic area based on the location of the sale, which is generally the customer's country of domicile.

	<b>Year ended</b>		
	<b>December 31, 2022</b>		
	<b>Distribution</b>	<b>Solutions</b>	<b>Total</b>
<b>Geography</b>			
USA	\$ 225,380	\$ 11,137	\$ 236,517
Europe and United Kingdom	34,423	9,171	43,594
Canada	22,706	1,531	24,237
Total net sales	<u>\$ 282,509</u>	<u>\$ 21,839</u>	<u>\$ 304,348</u>

**Timing of Revenue Recognition**

Transferred at a point in time where the Company is principal (1)	\$ 251,334	\$ 15,044	\$ 266,378
Transferred at a point in time where the Company is agent (2)	31,175	6,795	37,970
Total net sales	<u>\$ 282,509</u>	<u>\$ 21,839</u>	<u>\$ 304,348</u>

	<b>Year ended</b>		
	<b>December 31, 2021</b>		
	<b>Distribution</b>	<b>Solutions</b>	<b>Total</b>
<b>Geography</b>			
USA	\$ 210,247	\$ 11,057	\$ 221,304
Europe and United Kingdom	26,055	10,652	36,707
Canada	23,058	1,513	24,571
Total net sales	<u>\$ 259,360</u>	<u>\$ 23,222</u>	<u>\$ 282,582</u>

**Timing of Revenue Recognition**

Transferred at a point in time where the Company is principal (1)	\$ 234,322	\$ 16,360	\$ 250,682
Transferred at a point in time where the Company is agent (2)	25,038	6,862	31,900
Total net sales	<u>\$ 259,360</u>	<u>\$ 23,222</u>	<u>\$ 282,582</u>

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

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

Geographic identifiable assets related to operations as of December 31, 2022 and 2021 were as follows.

Identifiable Assets by Geographic Areas	December 31,	December 31,
	2022	2021
USA	\$ 137,877	\$ 122,445
Canada	27,597	24,923
Europe and United Kingdom	66,382	43,384
Total	<u>\$ 231,856</u>	<u>\$ 190,752</u>

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For the year ended December 31, 2022, the Company had two customers that accounted for 21%, and 16%, respectively, of consolidated net sales and as of December 31, 2022, 16% and 18%, respectively, of total net accounts receivable. For the year ended December 31, 2022, the Company had two vendors that accounted for 17% and 9%, respectively, of our consolidated purchases.

For the year ended December 31, 2021, the Company had two customers that accounted for 18%, and 17%, respectively, of consolidated net sales and as of December 31, 2021, 18% and 22%, respectively, of total net accounts receivable. For the year ended December 31, 2021, the Company had two vendors that accounted for 20% and 10%, respectively, of our consolidated purchases.

Our top five customers accounted for 52% and 51% of consolidated net sales for the years ended December 31, 2022 and 2021, respectively.

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Climb Global Solutions, Inc. and Subsidiaries  
Schedule II--Valuation and Qualifying Accounts  
(Amounts in thousands)

<u>Description</u>	<u>Beginning Balance</u>	<u>Charged to Cost and Expense</u>	<u>Deductions</u>	<u>Ending Balance</u>
Year ended December 31, 2021				
Allowance for doubtful accounts	\$ 892	\$ 26	\$ 37	\$ 881
Year ended December 31, 2022				
Allowance for doubtful accounts	\$ 881	\$ 19	\$ 58	\$ 842

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

Climb Global Solutions, 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 Amended and 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 law 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 "CLMB."

**Preferred Stock**

Our Certificate of Incorporation authorizes our Board of Directors, without further action by our

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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. 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 Board of Directors, 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 Stockholder 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,

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informational requirements and procedures set forth in our Certificate of Incorporation and Bylaws. Pursuant to our Certificate of Incorporation a stockholder'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 occurs.

#### *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<sup>2</sup>/<sub>3</sub>% 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.

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**Subsidiaries (Active)**

<b>Name</b>	<b>Jurisdiction of Organization</b>
Climb Channel Solutions, Inc.	Delaware
TechXtend, Inc.	Delaware
ISP International Software Partners, Inc.	Delaware
Interwork Technologies Inc.	Delaware
Wayside Technology Group Europe B.V.	Netherlands
Lifeboat Distribution, EMEA B.V.	Netherlands
Climb Global Solutions (Canada), Inc.	Canada
Climb Global Solutions Holdings UK Limited	England and Wales
Climb Global Solutions Limited	England and Wales
Climb Global Solutions EMEA Limited	Ireland

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Consent of Independent Registered Public Accounting Firm

Climb Global Solutions, Inc.  
Eatontown, New Jersey

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-257231, 333-237670, and 333-184573) of Climb Global Solutions, Inc. (formerly known as Wayside Technology Group, Inc.) of our reports dated March 16, 2023, relating to the consolidated financial statements and schedule, and the effectiveness of Climb Global Solutions, Inc.'s internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ BDO USA, LLP  
Woodbridge, New Jersey

March 16, 2023

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## CERTIFICATION OF CHIEF EXECUTIVE OFFICER (PRINCIPAL EXECUTIVE OFFICER)

I, Dale Foster, certify that:

1. I have reviewed this annual report on Form 10-K of Climb Global Solutions, 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 16, 2023

/s/ Dale Foster

Dale Foster

Chief Executive Officer and Director (principal executive officer)

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## CERTIFICATION OF CHIEF FINANCIAL OFFICER (PRINCIPAL FINANCIAL OFFICER)

I, Andrew Clark, certify that:

1. I have reviewed this annual report on Form 10-K of Climb Global Solutions, 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 16, 2023

/s/ Andrew Clark

Andrew Clark

Vice President and Chief Financial Officer (principal financial officer)

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## CERTIFICATION OF CHIEF ACCOUNTING OFFICER (PRINCIPAL ACCOUNTING OFFICER)

I, Matthew Sullivan, certify that:

1. I have reviewed this annual report on Form 10-K of Climb Global Solutions, 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 16, 2023

/s/ Matthew Sullivan

Matthew Sullivan

Vice President and Chief Accounting Officer (principal accounting officer)

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

In connection with the Annual Report of Climb Global Solutions, Inc. (the "Company") on Form 10-K for the period ending December 31, 2022 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

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Dale Foster  
Chief Executive Officer and Director  
March 16, 2023

*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.*

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

In connection with the Annual Report of Climb Global Solutions, Inc. (the "Company") on Form 10-K for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew Clark, 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/ Andrew Clark

Andrew Clark

Vice President and Chief Financial Officer

March 16, 2023

*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.*

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

In connection with the Annual Report of Climb Global Solutions, Inc. (the "Company") on Form 10-K for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew Sullivan, 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/ Matthew Sullivan

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Matthew Sullivan

Vice President and Chief Accounting Officer

March 16, 2023

*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.*

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