UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

OR

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

For the transition period from to

Commission File No. 000-26408

Wayside Technology Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3136104**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4 Industrial Way West, Suite 300, Eatontown, New Jersey 07724
(Address of principal executive offices)

(732) 389-8950
Registrant's Telephone Number

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer ☐	Accelerated Filer ☐
	Smaller Reporting Company ☒
Non-Accelerated Filer ☒	Emerging Growth Company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
There were 4,362,197 outstanding shares of common stock, par value $.01 per share ("Common Stock") as of November 5, 2020.

Wayside Technology Group, Inc. and Subsidiaries
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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40,296	$ 14,984
Accounts receivable, net of allowances of $850 and $765, respectively	74,892	100,987
Inventory, net	3,138	2,760
Vendor prepayments	3,366	100
Prepaid expenses and other current assets	3,510	2,718
Total current assets	125,202	121,549
Equipment and leasehold improvements, net	1,028	1,215
Goodwill	3,999	—
Other intangibles, net	3,772	—
Right-of-use assets, net	1,643	1,792
Accounts receivable-long-term, net	388	1,358
Other assets	176	111
Deferred income tax assets	—	256
Total assets	$ 136,208	$ 126,281
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 91,455	$ 78,364
Lease liability, current portion	428	383
Total current liabilities	91,883	78,747
Lease liability, net of current portion	1,926	2,189
Non-current liabilities	89	89
Deferred income tax liabilities	82	—
Total liabilities	93,980	81,025
Commitments and contingencies		
Stockholders' equity:		
Common stock, $.01 par value; 10,000,000 shares authorized; 5,284,500 shares issued: 4,365,613 and 4,505,693 shares outstanding, respectively	53	53
Additional paid-in capital	31,720	32,874
Treasury stock, at cost, 918,887 and 778,807 shares, respectively	(14,668)	(13,256)
Retained earnings	26,405	26,715
Accumulated other comprehensive loss	(1,282)	(1,130)
Total stockholders' equity	42,228	45,256
Total liabilities and stockholders' equity	$ 136,208	$ 126,281

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

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

	Nine months ended September 30,		Three months ended September 30,	
	2020	**2019**	**2020**	**2019**
Net sales	$ 180,124	$ 147,897	$ 60,919	$ 52,363
Cost of sales	157,609	125,789	53,682	45,308
Gross profit	22,515	22,108	7,237	7,055
Selling, general, and administrative expenses	17,269	16,175	6,157	5,087
Legal and financial advisory expenses, net - unsolicited bid and related matters	1,752	—	(81)	—
Acquisition related costs	982	—	344	—
Income from operations	2,512	5,933	817	1,968
Other income:				
Interest, net	105	416	19	118
Foreign currency transaction gain (loss)	211	39	(67)	(52)
Income before provision for income taxes	2,828	6,388	769	2,034
Provision for income taxes	881	1,624	239	589
Net income	$ 1,947	$ 4,764	$ 530	$ 1,445
Income per common share-Basic	$ 0.44	$ 1.06	$ 0.13	$ 0.32
Income per common share-Diluted	$ 0.44	$ 1.06	$ 0.13	$ 0.32
Weighted average common shares outstanding —Basic	4,306	4,415	4,218	4,428
Weighted average common shares outstanding — Diluted	4,306	4,415	4,218	4,428
Dividends paid per common share	$ 0.51	$ 0.51	$ 0.17	$ 0.17

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

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

	Nine months ended September 30,		Three months ended September 30,	
	2020	2019	2020	2019
Net income	$ 1,947	$ 4,764	$ 530	$ 1,445
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(152)	225	127	58
Other comprehensive (loss) income	(152)	225	127	58
Comprehensive income	$ 1,795	$ 4,989	$ 657	$ 1,503

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

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

	Common Stock		Additional Paid-In	Treasury		Retained	Accumulated Other Comprehensive	
	Shares	**Amount**	**Capital**	**Shares**	**Amount**	**Earnings**	**Loss**	**Total**
Balance at January 1, 2020	5,284,500	$ 53	$ 32,874	778,807	$ (13,256)	$ 26,715	$ (1,130)	$ 45,256
Net income	—	—	—	—	—	836	—	836
Translation adjustment	—	—	—	—	—	—	(501)	(501)
Dividends paid	—	—	—	—	—	(775)	—	(775)
Share-based compensation expense	—	—	167	—	—	—	—	167
Restricted stock grants (net of forfeitures)	—	—	(1,080)	(63,810)	1,079	—	—	(1)
Treasury shares repurchased	—	—	—	2,059	(32)	—	—	(32)
Balance at April 1, 2020	5,284,500	$ 53	$ 31,961	717,056	$ (12,209)	$ 26,776	$ (1,631)	$ 44,950
Net income	—	—	—	—	—	581	—	581
Translation adjustment	—	—	—	—	—	—	222	222
Dividends paid	—	—	—	—	—	(740)	—	(740)
Share-based compensation expense	—	—	234	—	—	—	—	234
Restricted stock grants (net of forfeitures)	—	—	(813)	(48,068)	813	—	—	—
Treasury shares repurchased	—	—	—	264,039	(3,489)	—	—	(3,489)
Balance at July 1, 2020	5,284,500	53	31,382	933,027	(14,885)	26,617	(1,409)	41,758
Net income	—	—	—	—	—	530	—	530
Translation adjustment	—	—	—	—	—	—	127	127
Dividends paid	—	—	—	—	—	(742)	—	(742)
Share-based compensation expense	—	—	636	—	—	—	—	636
Restricted stock grants (net of forfeitures)	—	—	(298)	(17,605)	298	—	—	—
Treasury shares repurchased	—	—	—	3,465	(81)	—	—	(81)
Balance at September 30, 2020	5,284,500	$ 53	$ 31,720	918,887	$ (14,668)	$ 26,405	$ (1,282)	$ 42,228

	Common Stock		Additional Paid-In	Treasury		Retained	Accumulated Other Comprehensive	
	Shares	**Amount**	**Capital**	**Shares**	**Amount**	**Earnings**	**Loss**	**Total**
Balance at January 1, 2019	5,284,500	53	32,392	788,006	(13,447)	22,994	(1,419)	$ 40,573
Net income	—	—	—	—	—	1,463	—	1,463
Translation adjustment	—	—	—	—	—	—	127	127
Dividends paid	—	—	—	—	—	(767)	—	(767)
Share-based compensation expense	—	—	165	—	—	—	—	165
Restricted stock grants (net of forfeitures)	—	—	(318)	(18,780)	318	—	—	—
Treasury shares repurchased	—	—	—	1,905	(20)	—	—	(20)
Balance at April 1, 2019	5,284,500	$ 53	$ 32,239	771,131	$ (13,149)	$ 23,690	$ (1,292)	$ 41,541
Net income	—	—	—	—	—	1,857	—	1,857
Translation adjustment	—	—	—	—	—	—	40	40
Dividends paid	—	—	—	—	—	(767)	—	(767)
Share-based compensation expense	—	—	169	—	—	—	—	169
Restricted stock grants (net of forfeitures)	—	—	59	3,500	(59)	—	—	—
Treasury shares repurchased	—	—	—	1,887	(24)	—	—	(24)
Balance at July 1, 2019	5,284,500	53	32,467	776,518	(13,232)	24,780	(1,252)	42,816
Net income	—	—	—	—	—	1,445	—	1,445
Translation adjustment	—	—	—	—	—	—	58	58
Dividends paid	—	—	—	—	—	(767)	—	(767)
Share-based compensation expense	—	—	287	—	—	—	—	287
Restricted stock grants (net of forfeitures)	—	—	(19)	(1,095)	19	—	—	—
Treasury shares repurchased	—	—	—	1,862	(22)	—	—	(22)
Balance at September 30, 2019	5,284,500	$ 53	$ 32,735	777,285	$ (13,235)	$ 25,458	$ (1,194)	$ 43,817

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

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

	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Cash flows from operating activities		
Net income	$ 1,947	$ 4,764
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization expense	403	380
Provision for doubtful accounts	130	—
Deferred income tax expense	(53)	47
Share-based compensation expense	1,037	620
Amortization of discount on accounts receivable	(136)	(389)
Amortization of right-of-use assets	280	282
Change in fair value of contingent earn-out consideration	24	—
Changes in operating assets and liabilities:		
Accounts receivable	36,608	(3,406)
Inventory	(235)	(881)
Prepaid expenses and other current assets	(225)	(231)
Vendor prepayments	(2,896)	2,984
Accounts payable and accrued expenses	(3,991)	(6,341)
Lease liability, net	(348)	(260)
Other assets and liabilities	(14)	67
Net cash and cash equivalents provided by (used in) operating activities	32,531	(2,364)
Cash flows from investing activities		
Purchase of equipment and leasehold improvements	(20)	(92)
Payment for acquisition, net of cash acquired	(1,141)	—
Net cash and cash equivalents used in investing activities	(1,161)	(92)
Cash flows from financing activities		
Purchase of treasury stock	(3,602)	(66)
Borrowings under revolving credit facility	6,800	—
Repayments of borrowings under revolving credit facility	(6,800)	—
Dividends paid	(2,257)	(2,301)
Payments of deferred financing costs	(61)	—
Net cash and cash equivalents used in financing activities	(5,920)	(2,367)
Effect of foreign exchange rate on cash and cash equivalents	(138)	97
Net increase (decrease) in cash and cash equivalents	25,312	(4,726)
Cash and cash equivalents at beginning of period	14,984	14,883
Cash and cash equivalents at end of period	$ 40,296	$ 10,157
Supplementary disclosure of cash flow information:		
Income taxes paid	$ 2,167	$ 1,982

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

Wayside Technology Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
September 30, 2020
(Unaudited)
(Amounts in tables in thousands, except share and per share amounts)

1. **Basis of Presentation:**

The accompanying unaudited condensed consolidated financial statements of Wayside Technology Group, Inc. and its subsidiaries (collectively, the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, as permitted by the rules and regulation of the Securities and Exchange Commission, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete audited financial statements.

The preparation of these condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, stock-based compensation, evaluation of performance obligations and allocation of revenue to distinct items, contingencies and litigation. The Company bases its estimates on its historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. In the opinion of the Company's management, all adjustments that are of a normal recurring nature, considered necessary for fair presentation of the results for the periods presented, have been included in the accompanying condensed consolidated financial statements. The Company's actual results may differ from these estimates under different assumptions or conditions. The unaudited condensed consolidated statements of earnings for the interim periods are not necessarily indicative of results for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the Securities Exchange Commission for the year ended December 31, 2019.

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

2. **Recently Issued Accounting Standards:**

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

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

3. **Foreign Currency Translation:**

Assets and liabilities of the Company's foreign subsidiaries have been translated using the end of the reporting period exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the period. Foreign currency transaction gains and losses are recorded as income or expenses as amounts are settled. The net sales from our foreign operations for the three months ended September 30, 2020 and 2019 were $5.0 million and $4.2 million, respectively. The net sales from our foreign operations for the nine months ended September 30, 2020 and 2019 were $16.6 million and $13.6 million, respectively.

4. **Comprehensive Income:**

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

5. **Revenue Recognition:**

The core principle of the revenue recognition criteria is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. This principle is achieved through applying the following five-step approach:

Identification of the contract, or contracts, with a customer — A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer. The Company considers customer purchase orders, which in some cases are governed by master agreements or general terms and conditions of sale, to be contracts with customers. All revenue is generated from contracts with customers.

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

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

Allocation of the transaction price to the performance obligations in the contract— If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price, or SSP, basis. We determine SSP based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through established standard prices, we use judgement and estimate the standalone selling price considering available information such as market pricing and pricing related to similar products. Contracts with a significant financing component are discounted to their present value at contract inception and accreted up to the expected payment amounts. These contracts generally offer customers extended payment terms of up to three years.

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

Disaggregation of Revenue

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

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
Net sales:	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Hardware, software and other products	$ 165,951	$ 133,482	$ 56,370	$ 47,508
Software - security & highly interdependent with support	5,839	5,417	2,059	1,798
Maintenance, support & other services	8,334	8,998	2,490	3,057
Net sales	$ 180,124	$ 147,897	$ 60,919	$ 52,363

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

Software products consist of sales of perpetual and term software licenses for products developed by third party vendors, which are distinct from related maintenance and support. Software licenses are delivered via electronic license keys provided by the vendor to the end user. Revenue from the sale of software products is recognized on a gross basis, with the selling price to the customer as net sales, and the cost of the related product as cost of sales, upon transfer of control to our customers as the Company is a principal in the transaction. Control is deemed to have passed to the customer when they acquire the right to use or copy the software under license as substantially all product functionality is available to the customer at the time of sale. Other products include marketing revenues that are recorded on a gross basis as the Company is a principal in the arrangement.

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

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

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

Costs to obtain and fulfill a contract - We pay commissions and related payroll taxes to sales personnel when customers are invoiced. These costs are recorded as selling general and administrative expenses in the period earned as all our performance obligations are complete within a short window of processing the order.

Contract balances - Accounts receivable is recorded at the invoiced amount, net of an allowance for doubtfulaccounts. A receivable is recognized in the period we deliver goods or provide services or when our right to consideration is unconditional. Payment terms on invoiced amounts are typically 30-75 days. The balance of accounts receivable, net of allowance for doubtful accounts as of September 30, 2020 and December 31, 2019 is presented in the accompanying Consolidated Balance Sheets. Accounts receivable-long-term result from product sales with extended payment terms that are discounted to their present values at the Company's estimates of prevailing market rates at the time of the sale. The Company has determined that these amounts do not represent variable consideration as the amount earned is fixed. In subsequent periods, the accounts receivable is increased to the amounts due and payable by the customers through the accretion of interest income on the unpaid accounts receivable due in future years. The amounts due under these long-term accounts receivable due within one year are reclassified to the current portion of accounts receivable and are shown net of reserves. As our revenues are generally recognized at a point in time in the same period as they are billed, we have no deferred revenue balances. Provisions for doubtful accounts including long-term accounts receivable and returns are estimated based on historical write offs, sales returns and credit memo analysis which are adjusted to actual on a periodic basis.

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

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

Sales In-Transit – 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.

The Company 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 to determine the amount of potential deferred net sales. Prior to the quarter ended September 30, 2020 it had been determined that this amount was not material. Due to increased sales of term licenses we have recorded an estimate of the impact of term license renewals fulfilled prior to commencement date during the three months ended September 30, 2020. In conjunction with this amount recorded in the current period, the Company also corrected within the current period a similar sales in-transit estimate amount that existed in the prior year. As part of the Company's analysis, it determined that there was an inconsequential impact to previously reported interim and annual financial statements and as such, no adjustments were required to be made to any prior period financial statements.

6. **Acquisition:**

On April 30, 2020, pursuant to a Stock Purchase Agreement dated April 20, 2020, CLIMB Channel Solutions (Canada) Inc. ("Buyer"), a newly-formed indirectly wholly-owned subsidiary of the Company completed the purchase of Interwork Technologies Inc., a Delaware corporation ("Interwork US") and Interwork Technologies Inc., a corporation incorporated under the laws of the Province of Ontario, Canada ("Interwork Canada"). Buyer acquired Interwork US and Interwork Canada for an aggregate purchase price of $5 million Canadian dollar (equivalent to $3.6 million USD), subject to certain working capital adjustments, paid at closing plus a potential post-closing $1.1 million Canadian dollar (equivalent to $0.8 million USD) earn-out. The allocation of the purchase price was based upon the estimated fair value of Interwork US and Interwork Canada'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 Company incurred acquisition related costs of approximately $0.3 million and $1.0 million during the three and nine months ended September 30, 2020, respectively. These expenses relate to costs incurred in conjunction with the acquisition of Interwork US, Interwork Canada and CDF Group Limited (see Note 19) and are reflected in the accompanying three and nine months ended September 30, 2020 Condensed Consolidated Statements of Earnings.

The financial position and operating results of Interwork US and Interwork Canada are included in the Company's condensed consolidated financial statements from the date of acquisition. The Company recorded net revenue for Interwork US and Interwork Canada of approximately $2.6 million and $6.3 million during the three and nine months ended September 30, 2020.

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 were as follows. The Company is in the process of obtaining third-party valuations of certain intangible assets; thus the provisional measurements of intangible assets, goodwill and deferred income taxes are subject to change:

(in thousands)		
Cash	$	1,009
Trade accounts receivable		9,534
Other current assets		628
Intangible assets		
Vendor relationships (14-year weighted average useful life)		3,797
Non-compete (1-year useful life)		8
Goodwill		3,857
Other assets		117
Accounts payable and other current liabilities		(15,051)
Deferred income tax liabilities		(389)
Taxes payable		(600)
Net assets	**$**	**2,910**

(in thousands)		
Supplementary information:		
Cash paid to sellers	$	2,150
Contingent earn-out		760
Total purchase consideration	**$**	**2,910**
Cash paid to sellers		2,150
Cash acquired in acquisition		(1,009)
Net cash paid for acquisition	**$**	**1,141**

Intangible assets are comprised of approximately $3.8 million of vendor relationships with a weighted average amortization period of 13.7 years, representing the expected period of benefits, of which $2.3 million is deductible for Canadian income tax purposes. Goodwill, which was allocated to the Climb Channel Solutions 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.

The purchase consideration includes approximately $0.8 million of potential earn-out consideration if certain targets are achieved, payable in cash. As of September 30, 2020, the Company reassessed the earn-out liability and increased the fair value of the earn-out liability by less than $0.1 million, with the adjustment recognized within selling, general and administrative expenses during the three and nine months ended September 30, 2020. The earn-out liability is included in accounts payable and accrued expenses as of September 30, 2020 as payment would be due in the third quarter of 2021.

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

7. Goodwill and Other Intangible Assets:

The following table summarizes the changes in the carrying amount of goodwill for the nine months ended September 30, 2020:

Balance at January 1, 2020	$	—
Acquisition of Interwork US and Interwork Canada		3,857
Translation adjustments		142
Balance September 30, 2020	$	3,999

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 change in our goodwill balance during the nine months ended September 30, 2020 relates to our acquisition of Interwork US and Interwork Canada, which has been allocated to the Climb Channel Solutions segment.

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

	September 30, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Vendor relationships	$ 3,888	$ 121	$ 3,767
Non-compete	8	3	5
Total	$ 3,896	$ 124	$ 3,772

Other intangibles, net was zero as of December 31, 2019.

Vendor relationships are amortized between eleven to fifteen years. Non-compete is amortized over one year.

During the three and nine months ended September 30, 2020, the Company recognized total amortization expense for other intangibles, net of $0.1 million. There was no amortization expense for other intangibles, net during the three and nine months ended September 30, 2019. Amortization expense is included in selling, general and administrative expense.

Estimated future amortization expense of the Company's other intangibles, net as of September 30, 2020 is as follows:

2020 (excluding the nine months ended September 30, 2020)	$ 75
2021	294
2022	291
2023	291
2024	291
Thereafter	2,530
Total	$ 3,772

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

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

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

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

	(Unaudited) Nine months ended September 30, 2020	2019
Cash paid for operating lease liabilities	$ 386	$ 371
Right-of-use assets obtained in exchange for new operating lease obligations (1)	$ 131	$ 2,163
Weighted-average remaining lease term	6.3 years	7.4 years
Weighted-average discount rate	3.4%	3.4%

(1) During the nine months ended September 30, 2019, represents operating leases existing on January 1, 2019 and recognized as part of the Company's adoption of ASU 2016-02.

Maturities of lease liabilities as of September 30, 2020 were as follows:

2020 (excluding the nine months ended September 30, 2020)	$ 103
2021	473
2022	426
2023	462
2024	472
Thereafter	1,100
	3,036
Less: imputed interest	(682)
Total lease liabilities	$ 2,354
Lease liabilities, current portion	428
Lease liabilities, net of current portion	1,926
Total lease liabilities	$ 2,354

9. **Fair Value:**

The carrying amounts of financial instruments, including cash and cash equivalents, short-term accounts receivable and accounts payable approximated fair value at September 30, 2020 and December 31, 2019 because of the relative short maturity of these instruments. The Company's accounts receivable long-term are discounted to their present value at prevailing market rates at the time of sale.

10. **Balance Sheet Detail:**

Equipment and leasehold improvements consist of the following:

	(Unaudited) September 30, 2020	December 31, 2019
Equipment	$ 2,653	$ 2,230
Leasehold improvements	1,307	1,289
	3,960	3,519
Less accumulated depreciation and amortization	(2,932)	(2,304)
	$ 1,028	$ 1,215

During the three months ended September 30, 2020 and 2019, the Company recorded depreciation and amortization expense of $0.1 million. During the nine months ended September 30, 2020 and 2019, the Company recorded depreciation and amortization expense of $0.3 million and $0.4 million, respectively. Depreciation and amortization expense is included in selling, general and administrative expense.

In limited circumstances, the Company offers extended payment terms to customers for periods of 12 to 48 months. The related customer receivables are classified as accounts receivable long-term and discounted to their present value at prevailing market rates at the time of sale. In subsequent periods, the accounts receivable is increased to the amounts due and payable by the customers through the accretion of interest income on the unpaid accounts receivable due in future years. The amounts under these long-term accounts receivable due within one year are reclassified to the current portion of accounts receivable. At times the Company sells receivables to a financial institution on a non-recourse basis for cash, less a discount. The net proceeds from such sales are included in the operating section of the statement of cash flows as changes in accounts receivable. Accounts receivable long term, net consists of the following:

	(Unaudited) September 30, 2020	December 31, 2019
Total amount due from customer	$ 2,957	$ 5,656
Less: unamortized discount	(76)	(194)
Less: current portion included in accounts receivable	(2,493)	(4,104)
	$ 388	$ 1,358

The undiscounted cash flows to be received by the Company relating to these accounts receivable long-term expects to be $2.6 million and $0.4 million during the 12-month periods ending September 30, 2021 and 2022, respectively.

Accounts payable and accrued expenses consist of the following:

	(Unaudited) September 30, 2020	December 31, 2019
Trade accounts payable	$ 85,255	$ 73,310
Accrued expenses	6,200	5,054
	$ 91,455	$ 78,364

11. **Credit Facility:**

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

The Amended Credit Facility, which will continue to be used for working capital and general corporate purposes, matures on June 30, 2023, at which time the Company must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any, fees, costs and expenses. In addition, the Company will pay regular monthly payments of all accrued and unpaid interest. The interest rate for any borrowings under the Amended Credit Facility is subject to change from time to time based on the changes in the LIBOR Rate, as defined in the Amended Loan Agreement (the “Index”). The Index was 2.50% at September 30, 2020. Interest on the unpaid principal balance of the Amended Note will be calculated using a rate of 1.75 percentage points over the Index. If the Index becomes unavailable during the term of the Amended Credit Facility, interest will be based upon the Benchmark Replacement (as defined in the Amended Loan Agreement) selected by Citibank after notifying the Company. The Amended Credit Facility is secured by the assets of the Company.

Among other affirmative covenants set forth in the Loan Agreement, which were not amended as part of the Amended Credit Facility, the Company must maintain (i) a minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of not less than 2.0 to 1.0, (ii) a maximum Leverage Ratio (as defined in the Loan Agreement) of at least 2.5 to 1.0, and (iii) a minimum Collateral Coverage Ratio (as defined in the Loan Agreement) of not less than 1.5 to 1.0. Additionally, the Loan Agreement contains negative covenants, which were not amended as part of the Amended Credit Facility, prohibiting, among other things, the creation of certain liens, the alteration of the nature or character of the Company's business, and transactions with the Company's shareholders, directors, officers, subsidiaries and/or affiliates other than with respect to (i) the repurchase of the issued and outstanding capital stock of the Company from the stockholders of the Company or (ii) the declaration and payment of dividends to the stockholders of the Company. The Company was in compliance with all such covenants at September 30, 2020 and December 31, 2019.

At September 30, 2020 and December 31, 2019, the Company had no borrowings outstanding under the Credit Facility.

12. **Earnings Per Share:**

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

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

	(Unaudited) Nine months ended September 30,		(Unaudited) Three months ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income	$ 1,947	$ 4,764	$ 530	$ 1,445
Less distributed and undistributed income allocated to participating securities	59	98	16	25
Net income attributable to common shareholders	1,888	4,666	514	1,420
Denominator:				
Weighted average common shares (Basic)	4,306	4,415	4,218	4,428
Weighted average common shares including assumed conversions (Diluted)	4,306	4,415	4,218	4,428
Basic net income per share	$ 0.44	$ 1.06	$ 0.13	$ 0.32
Diluted net income per share	$ 0.44	$ 1.06	$ 0.13	$ 0.32

13. **Major Customers and Vendors:**

The Company had two major vendors that accounted for 21% and 12%, respectively, of total purchases during the three months ended September 30, 2020 and 22% and 18%, respectively, of total purchases during the three months ended September 30, 2019. The Company had two major vendors that accounted for 20% and 9%, respectively, of total purchases during the nine months ended September 30, 2020 and 24% and 16%, respectively, of total purchases during the nine months ended September 30, 2019.

The Company had two major customers that accounted for 22% and 12%, respectively, of its net sales during the three months ended September 30, 2020 and 19% and 17%, respectively, of its net sales during the three months ended September 30, 2019. The Company had two major customers that accounted for 26% and 14%, respectively, of its net sales during the nine months ended September 30, 2020 and 24% and 20%, respectively, of its net sales during the nine months ended September 30, 2019. These same customers accounted for 19% and 11%, respectively, of total net accounts receivable as of September 30, 2020 and 43% and 12%, respectively, of total net accounts receivable as of December 31, 2019.

14. **Income Taxes:**

The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company's policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

The effective tax rate for the three months ended September 30, 2020 and 2019 was 31.1% and 29.0%, respectively. The effective tax rate for the nine months ended September 30, 2020 and 2019 was 31.1% and 25.4%, respectively. The Company's effective tax rate for the three and nine months ended September 30, 2020 was impacted by limitations on the deductibility of certain facilitative acquisition related costs.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The primary impact to the Company's financial statements as a result of the CARES Act was the deferral of US corporate income tax payments from the second quarter of 2020 to the third quarter of 2020.

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

The 2012 Stock-Based Compensation Plan (the "2012 Plan") authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The total number of shares of the Company's common stock, par value $0.01 per share ("Common Stock") initially available for award under the 2012 Plan was 600,000, which was increased to 1,000,000 shares by shareholder approval at the Company's 2018 Annual Meeting in June 2018. As of September 30, 2020, the number of shares of Common Stock available for future award grants to employees, officers and directors under the 2012 Plan is 384,164.

During the nine months ended September 30, 2020, the Company granted a total of 134,165 shares of Restricted Stock to directors, officers and employees. These shares of Restricted Stock vest immediately or over time in sixteen equal quarterly installments. During the nine months ended September 30, 2020, a total of 4,682 shares of Restricted Stock were forfeited.

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

A summary of nonvested shares of Restricted Stock awards outstanding under the 2012 Plan as of September 30, 2020, and changes during the nine months then ended is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2020	63,922	$ 14.94
Granted in 2020	134,165	14.31
Vested in 2020	(56,737)	16.93
Forfeited in 2020	(4,682)	16.85
Nonvested shares at September 30, 2020	136,668	$ 13.43

As of September 30, 2020, there is approximately $1.7 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.8 years.

During the three months ended September 30, 2020 and 2019, the Company recognized share-based compensation expense of $0.6 million and $0.3 million, respectively. During the nine months ended September 30, 2020 and 2019, the Company recognized share-based compensation expense of $1.0 million and $0.6 million, respectively.

16. **Segment Information:**

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

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

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

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

	(Unaudited) Nine months ended September 30,		(Unaudited) Three months ended September 30,	
	2020	2019	2020	2019
Revenue:				
Climb Channel Solutions	$ 168,537	$ 136,189	$ 57,059	$ 48,815
TechXtend	11,587	11,708	3,860	3,548
	180,124	147,897	60,919	52,363
Gross Profit:				
Climb Channel Solutions	$ 20,390	$ 19,708	$ 6,585	$ 6,386
TechXtend	2,125	2,400	652	669
	22,515	22,108	7,237	7,055
Direct Costs:				
Climb Channel Solutions	$ 8,387	$ 7,520	$ 2,993	$ 2,481
TechXtend	992	1,124	275	316
	9,379	8,644	3,268	2,797
Segment Income Before Taxes: (1)				
Climb Channel Solutions	$ 12,003	$ 12,188	$ 3,592	$ 3,905
TechXtend	1,133	1,276	377	353
Segment Income Before Taxes	13,136	13,464	3,969	4,258
General and administrative	$ 7,890	$ 7,531	$ 2,889	$ 2,290
Legal and financial advisory expenses, net - unsolicited bid and related matters	1,752	—	(81)	—
Acquisition related costs	982	—	344	—
Interest, net	105	416	19	118
Foreign currency transaction gain	211	39	(67)	(52)
Income before taxes	$ 2,828	$ 6,388	$ 769	$ 2,034

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

Selected Assets by Segment:	(Unaudited) As of September 30, 2020	As of December 31, 2019
Climb Channel Solutions	$ 86,593	$ 99,602
TechXtend	2,962	5,603
Segment Select Assets	89,555	105,205
Corporate Assets	46,653	21,076
Total Assets	$ 136,208	$ 126,281

Disaggregation of Revenue:	Nine months ended (Unaudited) September 30, 2020	September 30, 2019	Three months ended (Unaudited) September 30, 2020	September 30, 2019
Climb Channel Solutions				
Hardware, software and other products	$ 155,039	$ 122,967	$ 52,706	$ 44,308
Software - security & highly interdependent with support	5,775	5,162	2,042	1,670
Maintenance, support & other services	7,723	8,060	2,311	2,837
Net Sales	$ 168,537	$ 136,189	$ 57,059	$ 48,815
TechXtend				
Hardware, software and other products	$ 10,912	$ 10,515	$ 3,664	$ 3,200
Software - security & highly interdependent with support	64	255	17	128
Maintenance, support & other services	611	938	179	220
Net Sales	$ 11,587	$ 11,708	$ 3,860	$ 3,548

17. **Related Party Transactions:**

The Company made sales to a customer where a member of our Board of Directors is an executive. During the three months ended September 30, 2020 and 2019, net sales to this customer totaled approximately $0.1 million, respectively. During the nine months ended September 30, 2020 and 2019, net sales to this customer totaled approximately $0.1 million, respectively. Amounts due from this customer as of September 30, 2020 and December 31, 2019 was less than $0.1 million, respectively, which were settled in cash subsequent to each period end.

18. **Unsolicited Bid and Shareholder Demand:**

On July 15, 2019 and August 23, 2019, the Company received letters from Shepherd Kaplan Krochuk, LLC (“SKK”) and North & Webster SSG, LLC (“N&W”) announcing an unsolicited bid to acquire the Company. The proposal was subject to a number of contingencies, including the need for SKK and N&W to secure financing to complete a transaction.

On November 27, 2019, SKK, N&W, and Messrs. Shepherd, Kaplan, Krochuk and Kidston (collectively, the “SKK 13D Group”) entered into a Joint Filing Agreement and filed a Schedule 13D with the SEC, disclosing an aggregate 5.8% ownership stake in the Company. Also on November 27, 2019, Mr. Nynens entered into an agreement with SKK and N&W (the “November 27 Agreement”), granting SKK an irrevocable proxy to vote his shares of Common Stock (i) in favor of any acquisition proposal by SKK, (ii) against any third-party acquisition, and (iii) as directed by SKK with respect to the election of directors nominated by persons other than the Company.

On December 20, 2019, Mr. Nynens delivered a nomination notice to the Company regarding his intent to nominate Kim J. McCauley, Delynn Copley, Dennis M. Crowley, III and Nilesh Shah at the Meeting. On February 11, 2020, after considering the proposals with its financial advisers, the Board responded to SKK and N&W that the expired proposal received on December 10, 2019 would not have been in the best interests of the Company’s stockholders because it undervalues the Company, and did not serve as a basis for further diligence or discussion.

On January 22, 2020, the Company received a letter from one of its stockholders demanding that the Board investigate and bring an action against Mr. Nynens for breaches of certain restrictive covenants contained in his Separation and Release Agreement, dated May 11, 2018, including his covenant not to seek future employment with the Company. As a result, the Company filed a lawsuit (the “Lawsuit”) against Mr. Nynens, SKK, and N&W in the Superior Court of New Jersey Monmouth County, on February 14, 2020.

On April 16, 2020 (the “Effective Date”), the Company entered into a Settlement Agreement (the “Settlement Agreement”) with Mr. Nynens, SKK, N&W, and each of Dennis Crowley, David Shepherd, David Kaplan, Timothy Krochuk and Samuel Kidston (collectively with SKK and N&W, the “SKK Parties”). Pursuant to the Settlement Agreement, the Company agreed to voluntarily dismiss the Lawsuit with prejudice, and to purchase all of Mr. Nynens’ 261,631 shares of the Common Stock owned, of record or beneficially, as of the Effective Date, at fair market value, as defined in the agreement. Mr. Nynens and the SKK Parties terminated the November 27 Agreement and the Joint Filing Agreement. Additionally, Mr. Nynens agreed to withdraw the notice of intent to nominate director candidates for election at the 2020 annual meeting of stockholders of the Company, submitted by Mr. Nynens on December 20, 2019, and to cease all solicitation of proxies and other activities in connection with such annual meeting. For further information, see the Current Report on Form 8-K filed by the Company on April 17, 2020.

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

The Company incurred approximately $1.8 million in legal and advisory expenses, net during the nine months ended September 30, 2020 related to the above matter. In connection with this, the Company made certain claims for reimbursement under its insurance policies. During the three months ended September 30, 2020, reimbursement for insurance proceeds realized totaling $0.1 million has been recorded, while any potential additional insurance proceeds reimbursed under these policies as of September 30, 2020 have not been recorded as they have not been realized.

19. **Subsequent Events:**

On November 6, 2020, Wayside Technology UK Holdings Limited (“Buyer”), a private limited company under the laws of England and Wales and a newly-incorporated, wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement (“SPA”) and purchased the entire share capital of CDF Group Limited, a private limited company under the laws of England and Wales, for an aggregate purchase price of approximately £13.3 million (equivalent to approximately $17.4 million USD), subject to certain working capital and other adjustments.

The SPA contains customary English warranties and covenants, a guaranty by the Company of the performance by Buyer of its obligations under the SPA and customary indemnification obligations of Seller, subject to certain customary limitations and insurance caps.

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of risk and uncertainties, including those set forth under the heading "Forward Looking Statements" and "Item 1A. Risk Factors" and elsewhere in this report and those set forth in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, filed with the Securities and Exchange Commission on March 4, 2020. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes included in this report and the consolidated financial statements and related notes included in our 2019 Annual Report on Form 10-K.

Overview

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

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

COVID-19

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

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

While we did not incur significant disruptions to our operations during the three and nine months ended September 30, 2020 as a result of the COVID-19 pandemic, we are unable to predict the impact that the COVID-19 pandemic will have on our business, liquidity or results of operations at this time.

This situation is changing rapidly, and additional impacts may arise that we are not aware of currently. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers and shareholders. For further information regarding the impact of COVID-19, see Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q.

Factors Influencing Our Financial Results

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

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

To date, we have been able to implement cost efficiencies such as the use of drop shipments, electronic ordering ("EDI") and other capabilities to be able to operate our business profitably as gross margins have declined.

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

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

Dividend Policy and Share Repurchase Program. Historically we have sought to return value to investors through the payment of quarterly dividends and share repurchases. Total dividends paid and shares repurchased were $0.7 million and $0.1 million during the three months ended September 30, 2020. Total dividends paid and shares repurchased were $0.8 million and less than $0.1 million during the three months ended September 30, 2019, respectively. The payment of future dividends and share repurchases is at the discretion of our Board of Directors and dependent on results of operations, projected capital requirements and other factors the Board of Directors may find relevant.

Stock Volatility. The technology sector of the United States stock markets is subject to substantial volatility. Numerous conditions which impact the technology sector or the stock market in general or the Company in particular, whether or not such events relate to or reflect upon the Company's operating performance, could adversely affect the market price of the Company's common stock, par value $0.01 per share ("Common Stock"). Furthermore, the potential adverse effect of the current pandemic of COVID-19, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor or customer, increased competition, reduced vendor incentives and trade credit, higher operating expenses, and other developments, could have a significant impact on the market price of our Common Stock.

Forward Looking Statements

This report includes "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Statements in this report regarding future events or conditions, including but not limited to statements regarding industry prospects and the Company's expected financial position, results of operations, business and financing plans, are forward-looking statements. These statements can be identified by forward-looking words such as "may," "will," "plan," "expect," "intend," "anticipate," "believe," "estimate," and "continue," or similar words.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Because these forward-looking statements are subject to risks and uncertainties, actual results could differ materially from those indicated by such forward-looking statements. These risks and uncertainties include, but are not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, product mix, market conditions, competitive pricing pressures, contribution of key vendor relationships and support programs, including vendor rebates and discounts, as well as factors that affect the software industry in general and other factors generally. Currently, one of the most significant factors is the potential adverse effect of the current COVID-19 pandemic on the Company, the global economy and financial markets. The extent to which COVID-19 impacts the Company will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, including the impact on our reseller partners and the end customer markets they serve, among others. We strongly urge current and prospective investors to carefully consider the cautionary statements and risk factors contained in this report and our annual report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission on March 4, 2020.

The Company operates in a rapidly changing business, and new risk factors emerge from time to time. Management cannot predict every risk factor, nor can it assess the impact, if any, of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements.

Accordingly, forward-looking statements should not be relied upon as a prediction of actual results and readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The statements concerning future sales, future gross profit margin and future selling and administrative expenses are forward looking statements involving certain risks and uncertainties such as availability of products, product mix, pricing pressures, market conditions and other factors, which could result in a fluctuation of sales below recent experience.

Financial Overview

Net sales increased 16%, or $8.5 million, to $60.9 million for the three months ended September 30, 2020 compared to $52.4 million for the same period in the prior year. Gross profit increased 3%, or $0.1 million, to $7.2 million for the three months ended September 30, 2020 compared to $7.1 million for the same period in the prior year. Selling, general and administrative ("SG&A") expenses for the three months ended September 30, 2020 increased 21%, or $1.1 million, to $6.2 million for the three months ended September 30, 2020 compared to $5.1 million for the same period in the prior year. Legal and financial advisory expenses, net – unsolicited bid and related matters for the three months ended September 30, 2020 were a recovery of $0.1 million compared to no expense for the same period in the prior year. Acquisition related costs for the three months ended September 30, 2020 were $0.3 million compared to no expense for the same period in the prior year. Net income for the three months ended September 30, 2020 was $0.5 million compared to $1.4 million for the same period in the prior year. Diluted income per share for the three months ended September 30, 2020 was $0.13 compared to $0.32 for the same period in the prior year.

Critical Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements that have been prepared in accordance with US GAAP. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

On an on-going basis, the Company evaluates its estimates, including those related to product returns, bad debts, inventories, intangible assets, income taxes, stock-based compensation, contingencies and litigation.

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

The Company believes the following critical accounting policies used in the preparation of its consolidated financial statements affect its more significant judgments and estimates.

Revenue

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

Allowance for Accounts Receivable

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

Accounts Receivable – Long Term

In limited circumstances, the Company offers extended payment terms to customers for periods of 12 to 48 months. The related customer receivables are classified as accounts receivable long-term and discounted to their present value at prevailing market rates at the time of sale. In subsequent periods, the accounts receivable is increased to the amounts due and payable by the customers through the accretion of interest income on the unpaid accounts receivable due in future years. The amounts under these long-term accounts receivable due within one year are reclassified to the current portion of accounts receivable. At times the Company sells receivables to a financial institution on a non-recourse basis for cash, less a discount. The net proceeds from such sales are included in the operating section of the statement of cash flows as changes in accounts receivable.

Inventory Allowances

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

Acquisition Accounting

We allocate the purchase price of an acquired business, using the acquisition method of accounting, to its tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over fair value of net assets acquired is recorded as goodwill. Certain assumptions and judgements are used to estimate the fair value of acquired assets and liabilities. We engage outside appraisal firms to assist in the fair value determination of identifiable intangible assets. We may adjust the preliminary purchase price allocation, after the acquisition closing date and through the end of the measurement period of one year or less, as we finalize the valuation of acquired assets and liabilities. Changes in estimates used in the preliminary purchase price allocation could have a material effect on the final valuation and result in changes to goodwill and intangible assets. Additionally, if forecasts supporting the valuation of intangible assets or goodwill are not achieved, then an impairment charge could be recorded.

See further information on acquisition accounting in Notes 6 to the Consolidated Financial Statements in Item 1 of this report.

Income Taxes

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

Share-Based Payments

Under the fair value recognition provision, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period. We record the impact of forfeitures when they occur. We review our valuation assumptions periodically and, as a result, we may change our valuation assumptions used to value stock-based awards granted in future periods. Such changes may lead to a significant change in the expense we recognize in connection with share-based payments.

Interest, Net

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

Recently Issued Accounting Pronouncements

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

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

Results of Operations

The following table sets forth for the periods indicated certain financial information derived from the Company’s unaudited condensed consolidated statements of earnings expressed as a percentage of net sales. This comparison of financial results is not necessarily indicative of future results:

	Nine months ended September 30,		Three months ended September 30,	
	2020	2019	2020	2019
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	87.5	85.1	88.1	86.5
Gross profit	12.5	14.9	11.9	13.5
Selling, general and administrative expenses	9.6	10.9	10.1	9.7
Legal and financial advisory expenses, net - unsolicited bid and related matters	1.0	—	(0.1)	—
Acquisition related costs	0.5	—	0.6	—
Income from operations	1.4	4.0	1.3	3.8
Other income	0.2	0.3	(0.1)	0.1
Income before income taxes	1.6	4.3	1.3	3.9
Income tax provision	0.5	1.1	0.4	1.1
Net income	1.1 %	3.2 %	0.9 %	2.8 %

Key Operating Metrics

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

	Nine months ended		Three months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net sales	$ 180,124	$ 147,897	$ 60,919	$ 52,363
Adjusted gross billings (Non-GAAP)	$ 502,856	$ 433,519	$ 171,018	$ 149,058
Gross profit	$ 22,515	$ 22,108	$ 7,237	$ 7,055
Gross profit - Climb Channel Solutions	$ 20,390	$ 19,708	$ 6,585	$ 6,386
Gross profit - TechXtend	$ 2,125	$ 2,400	$ 652	$ 669
Adjusted EBITDA (Non-GAAP)	$ 7,062	$ 7,436	$ 1,852	$ 2,447
Gross margin % - Adjusted gross billings (Non-GAAP)	4.5%	5.1%	4.2%	4.7%
Effective margin % - Adjusted EBITDA (Non-GAAP)	31.4%	33.6%	25.6%	34.7%

We consider gross profit growth and effective margin to be key metrics in evaluating our business. During the three months ended September 30, 2020, gross profit increased 3%, or $0.1 million, to $7.2 million compared to $7.1 million for the same period in the prior year while effective margin decreased to 25.6% compared to 34.7% for the same period in the prior year. During the nine months ended September 30, 2020, gross profit increased 2%, or $0.4 million, to $22.6 million compared to $22.1 million for the same period in the prior year while effective margin decreased to 31.4% compared to 33.6% for the same period in the prior year.

Reconciliations of Non-GAAP Financial Measures

	Nine months ended		Three months ended	
Reconciliation of net sales to adjusted gross billings (Non-GAAP):	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net sales	$ 180,124	$ 147,897	$ 60,919	$ 52,363
Costs of sales related to Software – security and highly interdependent with support and maintenance, support or other services	322,732	285,622	110,099	96,695
Adjusted gross billings	$ 502,856	$ 433,519	$ 171,018	$ 149,058

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

Net income reconciled to adjusted EBITDA:	**Nine months ended**		**Three months ended**	
	September 30, 2020	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
Net income	$ 1,947	$ 4,764	$ 530	$ 1,445
Provision for income taxes	881	1,624	239	589
Depreciation and amortization	403	380	164	119
Interest expense	60	48	19	8
EBITDA	3,291	6,816	952	2,161
Share-based compensation	1,037	620	637	286
Legal and financial advisory expenses, net - unsolicited bid and related matters	1,752	-	(81)	-
Acquisition related costs	982	-	344	-
Adjusted EBITDA	$ 7,062	$ 7,436	$ 1,852	$ 2,447

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

Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

Acquisition

On April 30, 2020 we completed the acquisition of Interwork Technologies Inc. ("Interwork") for a purchase price of $3.6 million, subject to certain working capital adjustments, and a potential earnout of $0.8 million payable approximately one year after the acquisition date. The operating results of Interwork are included in our operating results effective May 1, 2020. See further information on acquisition accounting in Note 6 to the Consolidated Financial Statements in Item 1 of this report.

Net Sales and Adjusted Gross Billings

Net sales for the three months ended September 30, 2020 increased 16%, or $8.5 million, to $60.9 million compared to $52.4 million for the same period in the prior year. Adjusted gross billings for the three months ended September 30, 2020 increased 15%, or $21.9 million, to $171.0 million compared to $149.1 million for the same period in the prior year.

Climb Channel Solutions segment net sales for the three months ended September 30, 2020 increased 17%, or $8.2 million, to $57.0 million compared to $48.8 million for the same period in the prior year. The increase in net sales was primarily due to sales from Interwork for the three months ended September 30, 2020 and increased sales from newer vendor partner lines added in 2018 and 2019. Adjusted gross billings for the Climb Channel Solutions segment for the three months ended September 30, 2020 increased 16%, or $22.5 million, to $165.7 million compared to $143.2 million for the same period in the prior year.

TechXtend segment net sales for the three months ended September 30, 2020 increased 8%, or $0.3 million, to $3.8 million compared to $3.5 million for the same period in the prior year. Sales in our TechXtend segment may vary significantly from quarter to quarter based on the timing of IT spending decisions by our larger customers. Adjusted gross billings for the TechXtend segment for the three months ended September 30, 2020 decreased 10%, or $0.6 million, to $5.3 million compared to $5.9 million for the same period in the prior year.

During the three months ended September 30, 2020, we relied on two key customers for a total of 34% of our net sales, with one of these customers accounting for 22% and the other customer accounting for 12% of our total net sales. The Company had two major customers that accounted for 19% and 17%, respectively, of its total net sales during the three months ended September 30, 2019. The Company had two major vendors that accounted for 21% and 12%, respectively, of total purchases during the three months ended September 30, 2020 and 22% and 18%, respectively, of total purchases during the three months ended September 30, 2019.

Gross Profit

Gross profit for the three months ended September 30, 2020 increased 3%, or $0.1 million, to $7.2 million compared to $7.1 million for the same period in the prior year. Climb Channel Solutions segment gross profit for the three months ended September 30, 2020 increased 3%, or $0.2 million, to $6.6 million compared to $6.4 million for the same period in the prior year. The increase in Climb Channel Solutions segment gross profit resulted primarily from increased sales from the acquisition of Interwork and other vendor partner lines discussed above, partially offset by higher early pay discounts and other rebates and discounts offered to our customers. The increase in early pay discounts was impacted by a change in payment terms with one of our larger customers, which resulted in an early pay discount of approximately $0.4 million and a decrease in accounts receivable from the time the program was implemented of approximately $30 million (see Liquidity and Capital Resources below). TechXtend segment gross profit for the three months ended September 30, 2020 remained consistent with the same period in the prior year at $0.7 million.

Customer rebates and discounts for the three months ended September 30, 2020 were $1.6 million compared to $0.9 million for the same period in the prior year. This increase is primarily attributable to a change in payment terms with one of our larger customers during the second quarter of 2020. Customer rebates and discounts vary based on terms of rebate and early pay discount programs offered to customers and timing of payments ultimately received from our customers.

Vendor rebates and discounts for the three months ended September 30, 2020 remained consistent with the same period in the prior year at $0.6 million. Vendor rebates are dependent on programs offered by our vendors and in some cases reaching certain volume targets set by our vendors. The Company monitors vendor rebate levels, competitive pricing, and gross profit margins carefully. We anticipate that price competition in our market will continue in both of our business segments.

Selling, General and Administrative Expenses

SG&A expenses for the three months ended September 30, 2020 increased 21%, or $1.1 million, to $6.2 million compared to $5.1 million for the same period in the prior year, primarily due to higher sales related salaries and commissions, higher stock compensation expense and higher professional fees related to our obligations as a public company. SG&A expenses also include approximately $0.2 million of expenses from Interwork for the three months ended September 30, 2020, which we plan to phase out in the fourth quarter of 2020 as we complete the integration of our administrative organizations. SG&A expenses were 10.3% of net sales for the three months ended September 30, 2020, compared to 9.7% for the same period in the prior year.

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

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

Legal and financial advisory expenses, net – unsolicited bid and related matters for the three months ended September 30, 2020 were a recovery of $0.1 million relating to reimbursement for insurance proceeds realized compared to no expense for the same period in the prior year.

Acquisition Related Costs

Acquisition related costs for the three months ended September 30, 2020 were $0.3 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 Interwork and CDF discussed below.

Income Taxes

For the three months ended September 30, 2020 and 2019, the Company recorded a provision for income taxes of $0.2 million and $0.6 million, respectively. The effective tax rate for the three months ended September 30, 2020 and 2019 was 31.1% and 29.0%, respectively. The Company's effective tax rate for the three months ended September 30, 2020 was impacted by limitations on the deductibility of certain facilitative acquisition related costs.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Net Sales and Adjusted Gross Billings

Net sales for the nine months ended September 30, 2020 increased 22%, or $32.2 million, to $180.1 million compared to $147.9 million for the same period in the prior year. Adjusted gross billings for the nine months ended September 30, 2020 increased 16%, or $69.3 million, to $502.8 million compared to $433.5 million for the same period in the prior year.

Climb Channel Solutions segment net sales for the nine months ended September 30, 2020 increased 24%, or $32.4 million, to $168.6 million compared to $136.2 million for the same period in the prior year. The increase in net sales was primarily due to sales from new vendor partners added in 2018 and 2019 and the inclusion of net sales of Interwork for the five months ended September 30, 2020. Adjusted gross billings for the Climb Channel Solutions segment for the nine months ended September 30, 2020 increased 17%, or $72.1 million, to $486.4 million compared to $414.3 million for the same period in the prior year.

TechXtend segment net sales for the nine months ended September 30, 2020 decreased 1%, or $0.1 million, to $11.6 million compared to $11.7 million for the same period in the prior year. Sales in our TechXtend segment may vary significantly from quarter to quarter based on the timing of IT spending decisions by our larger customers. Adjusted gross billings for the TechXtend segment for the nine months ended September 30, 2020 decreased 14%, or $2.8 million, to $16.4 million compared to $19.2 million for the same period in the prior year.

During the nine months ended September 30, 2020, we relied on two key customers for a total of 40% of our net sales, with one of these customers accounting for 26% and the other customer accounting for 14% of our total net sales. The Company had two major customers that accounted for 24% and 20%, respectively, of its total net sales during the nine months ended September 30, 2019. The Company had two major vendors that accounted for 20% and 9%, respectively, of total purchases during the nine months ended September 30, 2020 and 24% and 16%, respectively, of total purchases during the nine months ended September 30, 2019.

Gross Profit

Gross profit for the nine months ended September 30, 2020 increased 2%, or $0.4 million, to $22.5 million compared to $22.1 million for the same period in the prior year. Climb Channel Solutions segment gross profit for the nine months ended September 30, 2020 increased 3%, or $0.7 million, to $20.4 million compared to $19.7 million for the same period in the prior year. The increase in Climb Channel Solutions segment gross profit resulted primarily from increased sales from the acquisition of Interwork and newer vendor lines discussed above, partially offset by higher early pay discounts and rebates offered to our customers. The increase in early pay discounts was impacted by a change in payment terms with one of our larger customers, which resulted in an early pay discount of approximately $0.7 million and a decrease in accounts receivable from the time the program was implemented of approximately $30 million (see Liquidity and Capital Resources below). TechXtend segment gross profit for the nine months ended September 30, 2020 decreased 11%, or $0.3 million, to $2.1 million compared to $2.4 million for the same period in the prior year.

Customer rebates and discounts for the nine months ended September 30, 2020 were $4.0 million compared to $2.5 million for the same period in the prior year. This increase is attributable to a change in payment terms with one of our larger customers during the second quarter of 2020 and timing of payments from other larger customers. 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 nine months ended September 30, 2020 were $2.5 million compared to $2.4 million for the same period in the prior year. Vendor rebates are dependent on reaching certain targets set by our vendors. The Company monitors vendor rebate levels, competitive pricing, and gross profit margins carefully. We anticipate that price competition in our market will continue in both of our business segments.

Selling, General and Administrative Expenses

SG&A expenses for the nine months ended September 30, 2020 increased 7%, or $1.1 million, to $17.3 million compared to $16.2 million for the same period in the prior year, primarily due to higher sales related salaries and commissions, higher stock compensation expense and higher professional fees related to our obligations as a public company. SG&A expenses were 9.7% of net sales for the nine months ended September 30, 2020, compared to 10.9% for the same period in the prior year. SG&A expenses include approximately $0.3 million of expenses from Interwork for the five months ended September 30, 2020. We anticipate completing the integration of the administrative functions of the two organizations during the fourth quarter of 2020.

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

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

Legal and financial advisory expenses, net – unsolicited bid and related matters for the nine months ended September 30, 2020 were $1.8 million compared to no expense for the same period in the prior year. These expenses relate to the costs incurred in conjunction with the unsolicited bid and shareholder demand discussed below.

Acquisition Related Costs

Acquisition related costs for the nine months ended September 30, 2020 were $1.0 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 Interwork and CDF discussed below.

Income Taxes

For the nine months ended September 30, 2020 and 2019, the Company recorded a provision for income taxes of $0.9 million and $1.6 million, respectively. The effective tax rate for the nine months ended September 30, 2020 and 2019 was 31.1% and 25.4%, respectively. The Company’s effective tax rate for the nine months ended September 30, 2020 was impacted by limitations on the deductibility of certain facilitative acquisition related costs.

Unsolicited Bid and Shareholder Demand

On July 15, 2019 and August 23, 2019, the Company received letters from Shepherd Kaplan Krochuk, LLC (“SKK”) and North & Webster SSG, LLC (“N&W”) announcing an unsolicited bid to acquire the Company. The proposal was subject to a number of contingencies, including the need for SKK and N&W to secure financing to complete a transaction.

On November 27, 2019, SKK, N&W, and Messrs. Shepherd, Kaplan, Krochuk and Kidston (collectively, the “SKK 13D Group”) entered into a Joint Filing Agreement and filed a Schedule 13D with the SEC, disclosing an aggregate 5.8%

ownership stake in the Company. Also on November 27, 2019, Mr. Nynens entered into an agreement with SKK and N&W (the "November 27 Agreement"), granting SKK an irrevocable proxy to vote his shares of Common Stock (i) in favor of any acquisition proposal by SKK, (ii) against any third-party acquisition, and (iii) as directed by SKK with respect to the election of directors nominated by persons other than the Company.

On December 20, 2019, Mr. Nynens delivered a nomination notice to the Company regarding his intent to nominate Kim J. McCauley, Delynn Copley, Dennis M. Crowley, III and Nilesh Shah at the Meeting. On February 11, 2020, after considering the proposals with its financial advisers, the Board responded to SKK and N&W that the expired proposal received on December 10, 2019 would not have been in the best interests of the Company's stockholders because it undervalues the Company, and did not serve as a basis for further diligence or discussion.

On January 22, 2020, the Company received a letter from one of its stockholders demanding that the Board investigate and bring an action against Mr. Nynens for breaches of certain restrictive covenants contained in his Separation and Release Agreement, dated May 11, 2018, including his covenant not to seek future employment with the Company. As a result, the Company filed a lawsuit (the "Lawsuit") against Mr. Nynens, SKK, and N&W in the Superior Court of New Jersey Monmouth County, on February 14, 2020.

On April 16, 2020 (the "Effective Date"), the Company entered into a Settlement Agreement (the "Settlement Agreement") with Mr. Nynens, SKK, N&W, and each of Dennis Crowley, David Shepherd, David Kaplan, Timothy Krochuk and Samuel Kidston (collectively with SKK and N&W, the "SKK Parties"). Pursuant to the Settlement Agreement, the Company agreed to voluntarily dismiss the Lawsuit with prejudice, and to purchase all of Mr. Nynens' 261,631 shares of the Common Stock owned, of record or beneficially, as of the Effective Date, at fair market value, as defined in the agreement. Mr. Nynens and the SKK Parties terminated the November 27 Agreement and the Joint Filing Agreement. Additionally, Mr. Nynens agreed to withdraw the notice of intent to nominate director candidates for election at the 2020 annual meeting of stockholders of the Company, submitted by Mr. Nynens on December 20, 2019, and to cease all solicitation of proxies and other activities in connection with such annual meeting. For further information, see the Current Report on Form 8-K filed by the Company on April 17, 2020.

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

The Company incurred approximately $1.8 million in legal and advisory expenses, net during the nine months ended September 30, 2020 related to the above matter. In connection with this, the Company made certain claims for reimbursement under its insurance policies. During the three months ended September 30, 2020, reimbursement for insurance proceeds realized totaling $0.1 million has been recorded, while any potential additional insurance proceeds reimbursed under these policies as of September 30, 2020 have not been recorded as they have not been realized.

Acquisitions

Interwork Technologies

On April 30, 2020, pursuant to a Stock Purchase Agreement dated April 20, 2020, CLIMB Channel Solutions (Canada) Inc. (“Buyer”), a newly-formed indirect subsidiary of the Company completed the purchase of Interwork Technologies Inc., a Delaware corporation (“Interwork US”) and Interwork Technologies Inc., a corporation incorporated under the laws of the Province of Ontario, Canada (“Interwork Canada”). Buyer acquired Interwork US and Interwork Canada for an aggregate purchase price of $5 million Canadian dollar (equivalent to $3.6 million USD), subject to certain working capital adjustments, paid at closing plus a potential post-closing $1.1 million Canadian dollar (equivalent to $0.8 million USD) earn-out.

CDF Group Limited

On November 6, 2020, Wayside Technology UK Holdings Limited (“Buyer”), a private limited company under the laws of England and Wales and a newly-incorporated, wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement (“SPA”) and purchased the entire share capital of CDF Group Limited, a private limited company under the laws of England and Wales, for an aggregate purchase price of approximately £13.3 million (equivalent to approximately $17.4 million USD), subject to certain working capital and other adjustments.

The SPA contains customary English warranties and covenants, a guaranty by the Company of the performance by Buyer of its obligations under the SPA and customary indemnification obligations of Seller, subject to certain customary limitations and insurance caps.

Liquidity and Capital Resources

Our cash and cash equivalents increased to $40.3 million as of September 30, 2020 compared to $15.0 million as of December 31, 2019. The increase in cash and cash equivalents was primarily the result of $32.5 million of cash and cash equivalents provided by operating activities resulting from a change in payment terms with one of our customers, offset by $3.6 million of cash used to purchase treasury stock, $2.3 million of cash used for dividends and $1.1 million of cash used for an acquisition.

Net cash and cash equivalents used in operating activities for the nine months ended September 30, 2020 was $32.5 million, comprised primarily of net income adjusted for non-cash items of $3.7 million and changes in operating assets and liabilities of $28.8 million. Net cash and cash equivalents used in changes in working capital were the result the timing of customer payments. During the second quarter of 2020, we implemented a change in the payment terms with one of our large customers. The impact of this change in payment terms resulted in a reduction of our accounts receivable and corresponding increase in cash of approximately $30 million from the date the program was implemented. This change in terms also had the impact of reducing our net sales and gross profit by approximately $0.4 million and $0.7 million for the three and nine months ended September 30, 2020, respectively, however, we believe the additional liquidity will improve our return on invested capital and provide us greater flexibility in pursuing our strategic objectives.

Net cash and cash equivalents used in investing activities during the nine months ended September 30, 2020 primarily consisted of payments for an acquisition. On April 30, 2020, the Company completed the purchase of Interwork US and Interwork Canada for an aggregate purchase price of $5 million Canadian dollar (equivalent to $3.6 million USD), subject to certain working capital adjustments, paid at closing plus a potential post-closing $1.1 million Canadian dollar (equivalent to $0.8 million USD) earn-out. The Company financed the acquisition from existing capital resources.

On November 6, 2020, the Company entered into the SPA to purchase CDF Group Limited for an aggregate purchase price of £13.3 million (equivalent to approximately $17.4 million USD), subject to certain working capital and other adjustments.

Net cash and cash equivalents used in financing activities during the nine months ended September 30, 2020 was $5.9 million, primarily comprised of the purchase of treasury stock of $3.6 million and dividend payments on our Common Stock of $2.3 million. On April 23, 2020, the Company purchased 261,631 shares of its outstanding common stock at $13.19 per share, representing approximately 5.8% of its issued and outstanding shares for $3.5 million in accordance with the Settlement Agreement.

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

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

Foreign Exchange

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

Off-Balance Sheet Arrangements

As of September 30, 2020, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

As described above, on April 30, 2020 we completed the acquisition of Interwork. SEC guidance permits management to omit an assessment of an acquired business' internal control over financial reporting from management's assessment of internal control over financial reporting for a period not to exceed one year from date of acquisition. We are in the process of integrating Interwork's operations within our internal control structure. In executing this integration, we are analyzing, evaluating, and where necessary, making changes in controls and procedures related to the Interwork business. Accordingly, management has excluded controls relating to Interwork in this quarter's evaluation of disclosure controls and procedures.

Changes in Internal Control Over Financial Reporting. Except for the acquisition of Interwork described above, there has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act, that occurred during the three months ended September 30, 2020, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. – Legal Proceedings

Please see Note 18 to the "Consolidated Condensed Financial Statements" of this Quarterly Report on Form 10-Q regarding certain legal proceedings that were terminated prior to the period covered by this Quarterly Report on Form 10-Q (the "Proceedings"). A description of the Proceedings is included in Part II, Item 1, "Legal Proceedings" of our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 and Part I, Item 3 "Legal Proceedings" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and are incorporated herein by reference.

Item 1A. – Risk Factors

Except as set forth below, during the quarter ended September 30, 2020, there were no material changes to the Risk Factors disclosed in Item 1A - "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

The current COVID-19 pandemic and other public health threats or outbreaks of communicable diseases could have a material adverse effect on the Company's operations and financial results.

The Company may face risks related to public health threats or outbreaks of communicable diseases. A widespread healthcare crisis, such as an outbreak of a communicable disease could adversely affect the global economy and the Company's and its business partners' ability to conduct business for an indefinite period of time. For example, the ongoing global novel coronavirus, COVID-19, pandemic, has negatively impacted global economy, disrupted financial markets and international trade, resulted in increased unemployment levels and significantly impacted global supply chains. In addition, federal, state, and local governments have implemented various mitigation measures, including travel restrictions, border closings, restrictions on public gatherings, shelter-in-place restrictions and limitations on business. Some of these actions have adversely impacted the ability of the Company's customers, vendors and other business partners to conduct business activities, and could ultimately do so for an indefinite period of time. This could have a material adverse effect on the Company's results of operations, financial condition, and liquidity. In particular, the continued spread of COVID-19 and efforts to contain the virus could:

- impact customer demand of the Company's portfolio of technology offerings;
- cause the Company to experience an increase in delayed payments from customers and uncollectable accounts;
- cause delays and disruptions in the supply chain resulting in disruptions in the fulfillment of orders;
- impact availability of qualified personnel, including workforce disruptions due to illness, quarantines, governmental actions, other restrictions, and/or the social distancing measures taken to mitigate the impact of COVID-19; and
- cause other unpredictable events.

The situation surrounding COVID-19 remains fluid and the potential for a material impact on the Company's results of operations, financial condition, and liquidity increases the longer the virus impacts activity levels in the United States and globally. For this reason, the Company cannot reasonably estimate with any degree of certainty the future impact COVID-19 may have on the Company's results of operations, financial position, and liquidity. The extent to which the COVID-19 pandemic may impact the Company's business, operating results, financial condition, or liquidity will depend on future developments, including the duration of the outbreak, travel restrictions, business and workforce disruptions, and the effectiveness of actions taken to contain and treat the disease.

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

The table below sets forth the repurchase of Common Stock by the Company and its affiliated purchasers during the third quarter of 2020.

ISSUER PURCHASE OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid Per Share	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (3)
July 1, 2020 - July 31, 2020	—	$ —	—	$ —	547,488
August 1, 2020 - August 31, 2020	3,465 (1)	$ 23.29	—	$ —	547,488
September 1, 2020 - September 30, 2020	—	$ —	—	$ —	547,488
Total	3,465	$ 23.29	—	$ —	547,488

(1) Includes 2,408 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of Restricted Stock. These shares are not included in the Common Stock repurchase program referred to in footnote (3) below.

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

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

Item 3. – Defaults Upon Senior Securities

None.

Item 4. – Mine Safety Disclosures

None.

Item 5. – Other Information

None.

Item 6. Exhibits

(a) Exhibits

31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Dale Foster, the Chief Executive Officer (principal executive officer) of the Company.

31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Michael Vesey, the Vice President and Chief Financial Officer (principal financial and accounting officer) of the Company.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Dale Foster, the Chief Executive Officer (principal executive officer) of the Company.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Michael Vesey, the Vice President and Chief Financial Officer (principal financial and accounting officer) of the Company.
101	The following financial information from Wayside Technology Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, filed with the SEC on November 12, 2020, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Income, (3) Condensed Consolidated Statements of Stockholders' Equity, (4) Condensed Consolidated Statements of Comprehensive Income, (5) Condensed Consolidated Statements of Cash Flows, and (6) the Notes to the Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

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

WAYSIDE TECHNOLOGY GROUP, INC

November 12, 2020	By: /s/ Dale Foster
Date	Dale Foster, Chief Executive Officer (Principal Executive Officer)
November 12, 2020	By: /s/ Michael Vesey
Date	Michael Vesey, Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Dale Foster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Wayside Technology Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d) -15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2020

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

Exhibit 31.2

CERTIFICATION

I, Michael Vesey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Wayside Technology Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d) -15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2020

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

Exhibit 32.1

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

In connection with the Quarterly Report of Wayside Technology Group, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dale Foster, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Dale Foster
Dale Foster
Chief Executive Officer
(Principal Executive Officer)
November 12, 2020

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

Exhibit 32.2

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

In connection with the Quarterly Report of Wayside Technology Group, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael Vesey, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Michael Vesey
Michael Vesey
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
November 12, 2020

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