GOLD RESERVE INC
Form 6-K
July 05, 2012

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934

For the month of July 2012

Commission File Number: 001-31819

Gold Reserve Inc.

(Exact name of registrant as specified in its charter)

926 W. Sprague Avenue, Suite 200
Spokane, Washington 99201
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by
Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.
Yes ¨ No x

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

The following exhibit is furnished with this Form 6-K:

99.1 Amended and Restated Subordinated Note Restructuring Agreement

Cautionary Statement Regarding Forward-Looking Statements

The information furnished under cover of this Form 6-K contains both historical information and forward-looking statements (within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the Securities Act (Ontario)) that may state our intentions, hopes, beliefs, expectations or predictions for the future. In this report, forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us at this time, are inherently subject to significant business, economic and competitive uncertainties and contingencies. We caution that such forward-looking statements involve known and unknown risks, uncertainties and other risks that may cause our actual financial results, performance, or achievements of the Company to be materially different from our estimated future results, performance, or achievements expressed or implied by those forward-looking statements.

These forward-looking statements involve risks and uncertainties, as well as assumptions that may never materialize, prove incorrect or materialize other than as currently contemplated which could cause our results to differ materially from those expressed or implied by such forward-looking statements. The words "believe," "anticipate," "expect," "intend," "estimate," "plan," "may," "could" and other similar expressions that are predictions of or indicate future events and future trends which do not relate to historical matters, identify forward-looking statements. Any such forward-looking statements are not intended to give any assurances as to future results. Numerous factors could cause actual results to differ materially from those in the forward-looking statements. Due to risks and uncertainties, including the risks and uncertainties identified in our Annual Information Form, actual results may differ materially from current expectations.

Numerous factors could cause actual results to differ materially from those in the forward-looking statements, including without limitation:

- the outcome of our arbitration under ICSID against the Bolivarian Republic of Venezuela;
- the actual value realized from the disposition of the remaining Brisas Project related assets;
- the result or outcome of the litigation regarding the enjoined hostile takeover bid for us;
- the equity dilution as a result of the proposed restructuring of the outstanding 5.5% senior subordinated notes;
- our ability to maintain continued listing on the NYSE MKT and/or the TSX Venture;
- corruption and uncertain legal enforcement;
- political and social instability;
- requests for improper payments;
- competition with companies that are not subject to or do not follow Canadian and U.S. laws and regulations;
- regulatory, political and economic risks associated with Venezuela including changes in laws and legal regimes;
- impact of currency, metal prices and metal production volatility;

- our dependence upon the abilities and continued participation of certain key employees;
- the prospects for exploration and development of other mining projects by us; and
- risks normally incident to the exploration, development and operation of mining properties.

Investors are cautioned not to put undue reliance on forward-looking statements, and investors should not infer that there has been no change in our affairs since the date of this report that would warrant any modification of any forward-looking statement made in this document, other documents filed periodically with securities regulators or documents presented on our website. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this notice. We disclaim any intent or obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of assumptions or factors, whether as a result of new information, future events or otherwise, subject to our disclosure obligations under applicable rules promulgated by the relevant securities regulators.

(Signature page follows)

SIGNATURE

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.

Dated: July 5, 2012

GOLD RESERVE INC. (Registrant)

By: /s/ Robert A. McGuinness

Name: Robert A. McGuinness

Title: Vice President – Finance & CFO

Exhibit 99.1 Amended and Restated Subordinated Note Restructuring Agreement

EXECUTION VERSION

Gold Reserve Inc.

926 W Sprague Ave

Suite 200

Spokane, WA 99201

AMENDED AND RESTATED

SUBORDINATED NOTE RESTRUCTURING AGREEMENT

As of July 3, 2012

TO: THE PARTIES SIGNATORY HERETO

Ladies and Gentlemen:

This Amended and Restated Subordinated Note Restructuring Agreement (this "Restructuring Agreement") is entered into between the undersigned, Gold Reserve Inc., a company incorporated under the laws of the Yukon Territory, Canada (the "Company"), and each entity or account listed on Exhibit A hereto (each a "Holder" and solely for ease of reference, collectively the "Holders"). The Holders and the Company may be referred to, collectively, as the "Parties." Notwithstanding any collective reference to Holders, each Holder is acting separately in the exercise of its rights hereunder and all of its commitments and liabilities are undertaken on a several and not joint basis.

WHEREAS, the Parties desire to amend and restate the Subordinated Note Restructuring Agreement, dated as of May 25, 2012 (the "Original Agreement") in its entirety as set forth herein;

WHEREAS, the Company issued 5.50% convertible notes (the "Notes") in the aggregate principal amount of $103,500,000 on May 18, 2007, of which an aggregate principal amount of $102,347,000 remained outstanding as of the date of the Original Agreement;

WHEREAS, in accordance with the terms of the indenture governing the Notes (the "Indenture") the Company repurchased $18,036,000 of the outstanding Notes for cash on June 15, 2012 on the terms and subject to the conditions included in the Repurchase Notice dated May 16, 2012 and the Schedule TO filed with the SEC on May 16, 2012 (the "Repurchase Offer");

WHEREAS, certain of the Holders tendered for cash certain of the Notes held by them pursuant to the Repurchase Offer in accordance with the terms of the Original Agreement;

WHEREAS, the Holders hold the principal amounts of Notes listed on Exhibit A attached hereto;

WHEREAS, the Company and the Holders desire to restructure the Company's obligations under the Notes held by the Holders (the "Subject Notes", as set forth on Exhibit A hereto) pursuant to the Restructuring Transaction, as defined below;

WHEREAS, the Board of Directors of the Company (the "Board") has unanimously determined that the Restructuring Transaction is in the best interests of the Company's shareholders (the "Shareholders") and has approved the Restructuring Transaction;

WHEREAS, the Shareholders have approved the Restructuring Transaction (the "Shareholder Approval"); and

WHEREAS, the Company will offer all holders of the Notes other than the Holders (the "Other Holders") the ability to restructure Notes held by them on substantially the same economic terms as provided to the Holders pursuant to a tender offer (the "Tender Offer").

NOW, THEREFORE, in consideration of the foregoing, the Company hereby agrees with the Holders as follows:

1. Restructuring Transaction.

1.1 The following transactions are collectively, the "Restructuring Transaction":

(a) Each $1,000 in principal amount of Subject Notes held by each Holder shall be restructured by the Company as follows:

(i) $700 principal amount of Subject Notes (the "Transferred Notes") shall be exchanged for (i) USD $200.00 in cash (the "Cash Payments"), (ii) 147.06 common shares (the "Restructuring Transaction Shares") of the Company, no par value, issued by the Company to the Holders ("Common Shares"), and (iii) a pro rata portion of the aggregate 5% Contingent Value Right issued by the Company to the Holders payable in respect of all Subject Notes; and

(ii) $300 principal amount of Subject Notes shall remain outstanding and represent the same continuing indebtedness, subject to the amended terms set forth in the supplemental indenture (the "Supplemental Indenture") substantially in the form attached hereto as Exhibit B ("Amended Notes").

(b) The Company shall make the Cash Payments to the Holders on or before the first Business Day following execution of this Restructuring Agreement in consideration of the Holders' entering into this Restructuring Agreement (and each Holder shall provide a customary receipt acknowledging receipt of its Cash Payment). The Cash Payments shall not be refundable for any reason, except as a result of a breach of a Holder's commitment to exchange its Notes in accordance with the terms hereof.

1.2 Each Holder, severally and not jointly, (i) subject to the terms and conditions contained herein, commits to exchange its Subject Notes for the Cash Payments, Restructuring Transaction Shares, Contingent Value Right and Amended Notes as provided above, and (ii) covenants and agrees that it will not tender its Subject Notes into the Tender Offer.

The aggregate amounts of cash, Restructuring Transaction Shares and the Contingent Value Percentage of Contingent Value Rights to be paid or issued to, and the principal amount of the Amended Notes held by, each Holder in respect of its Subject Notes is set forth on Exhibit A.

1.3 On the Closing Date (as defined below), the Company shall (x) pay to each Holder in cash the accrued and unpaid interest on the full principal amount of the Subject Notes through the day immediately prior to the Closing Date, (y) issue to each Holder a CVR Certificate in the applicable Contingent Value Percentage as set forth on Exhibit A hereto and (z) pay to each Holder (and each Other Holder, as applicable) its pro rata portion of any Additional Cash Consideration not previously paid.

At the request of each Holder, the Company covenants and agrees to elect jointly with such Holder pursuant to section 85 of the *Income Tax Act* (Canada) (the "Act") in prescribed form and within the prescribed time for purposes of the Act, and shall therein agree in respect of the Transferred Notes referred to in such election that the Holder's proceeds of disposition and the Company's cost of such Transferred Notes shall be such amount as shall be determined by the Holder and is permitted under Section 85 of the Act. The Company and the Holder covenant and agree to file such election as required by the Act and the regulations thereunder so that it shall have full force and effect for purposes of the Act.

2. **Closing**. The closing of the Restructuring Transaction (the "Closing") shall take place at the offices of Gold Reserve Inc., 926 W Sprague Ave, Suite 200, Spokane, WA 99201, at 10:00 am Pacific time, on the third (3rd) Business Day following the satisfaction or waiver of the conditions set forth in Sections 3.1, 3.2 and 3.3, or at such other time and place as the parties may agree (the date on which the Closing occurs, the "Closing Date"); provided, however, that the Closing Date shall not, in any event, occur later than August 7, 2012 (the "Outside Date") without the prior consent of the Holders. Notwithstanding the foregoing or anything to the contrary herein, if the Company postpones the Closing in breach of its obligations to consummate the Restructuring Transaction by the Outside Date, or otherwise breaches any of its other obligations set forth herein, each Holder may elect to have the Company redeem any or all of the Notes held by it on the Outside Date in accordance with the terms of the Indenture by providing written notice of such election within thirty (30) days of the Outside Date; provided, that the Company shall in all events use its reasonable best efforts to cause the Closing to occur by the Outside Date. Any election by any Holder to cause the Company to redeem the Notes held by such Holder shall be in addition to any other remedy that such Holder may have pursuant to the terms of this Restructuring Agreement or in law or equity and shall not prejudice or otherwise impair any remedy available to such Holder, including, but not limited to, the rights and remedies set forth in Sections 9.2 and 9.5 of this Restructuring Agreement. The Company further acknowledges and agrees that any election by a Holder to cause the Company to redeem the Notes held by such Holder will not constitute liquidated damages or otherwise be deemed to cure any breach by the Company of the terms hereof.

3. **Conditions Precedent**

3.1 Conditions Precedent of all Parties to the Restructuring Transaction. The obligations of the Company and each Holder to consummate the Restructuring Transaction are subject to the satisfaction of the following condition:

(a) No Prohibition. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or Governmental Authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of the Restructuring Transaction.

3.2 Conditions Precedent to the obligations of the Holders. The obligation of each Holder to consummate the Restructuring Transaction are subject to the satisfaction or waiver of the following conditions:

(a) Certain Documents to be delivered to the Holders. Each Holder shall have received the following, each dated the Closing Date (unless a different date is indicated below), and each in form, scope and substance reasonably satisfactory to the Holders:

(i) the Supplemental Indenture, duly executed by the Company and the Indenture Trustee, duly executed by the Company and applicable trustee, as applicable;

(ii) the CVR Certificate representing its Contingent Value Rights for the Holder's applicable Contingent Value Percentage, duly executed and delivered by the Company;

(iii) certified copies of the resolutions of the Board approving this Restructuring Agreement, the Restructuring Transaction, the Supplemental Indenture, the form of CVR Certificate and the Amendment to the Shareholder Rights Plan, and certified copies of all documents evidencing other reasonably necessary corporate action and governmental approvals, if any, with respect to the Restructuring Transaction;

(iv) a certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign the Restructuring Agreement, the Supplemental Indenture, the CVR Certificate, the Amendment to the Shareholder Rights Plan and the other documents to be delivered hereunder;

(v) certified copies of the Certificate or Articles of Incorporation (certified by the Secretary of State of the applicable state of incorporation) dated at least within ten (10) Business Days of the Closing Date or such earlier date as is reasonable, and bylaws, each as amended to date, of the Company;

(vi) a legal opinion of (i) Baker & McKenzie LLP in a form to be agreed by the Parties, acting reasonably, and (ii) Norton Rose Canada LLP (and/or Yukon counsel, as applicable) in a form to be agreed by the Parties, acting reasonably;

(vii) an Officer's Certificate certifying as to the matters addressed in clauses 3.2(b)-(e) below; and

(viii) such other documents, agreements or information as a Holder may reasonably request.

(b) Representations and Warranties. The representations and warranties of the Company set forth herein shall be true and correct in all material respects as of the date of the Original Agreement and as of the Closing Date (unless such representation or warranty speaks only as of a certain date, in which case such representation and warranty need only be true and correct as of such date in all material respects).

(c) Covenants. The Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Restructuring Agreement to be performed, satisfied or complied with by it on or prior to the Closing Date.

(d) No litigation. No litigation has been initiated which, if determined in an adverse manner, would materially impair the ability of the Restructuring Transaction to be completed.

(e) Amended Notes. The Amended Notes shall be eligible for clearance and settlement through DTC and the Company shall have obtained CUSIP numbers for the Amended Notes.

3.3 Conditions Precedent of the Company to the Restructuring Transaction. The obligations of the Company to consummate the Restructuring Transaction are subject to the satisfaction or waiver of the following conditions:

(a) Certain Documents to be Delivered to the Company. The Company shall have received from each Holder the following, each dated the Closing Date (unless a different date is indicated below), and each in form, scope and substance reasonably satisfactory to the Company:

(i) the CVR Certificate, duly executed and delivered by each Holder; and

(ii) such other documents, agreements or information as the Company may reasonably request.

(b) Representations and Warranties. The representations and warranties of each Holder set forth herein shall be true and correct in all material respects as of the date of the Original Agreement and as of the Closing Date (unless such representation or warranty speaks only as of a certain date, in which case such representation and warranty need only be true and correct as of such date in all material respects).

(c) Covenants. Each Holder shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Restructuring Agreement to be performed, satisfied or complied with by it on or prior to the Closing Date.

4. Affirmative Covenants.

4.1 Publicity. Prior to the Closing, the Company may make public announcements regarding the Restructuring Transaction which the Company reasonably believes are required by Applicable Law or as contemplated by the terms of this Restructuring Agreement. Prior to making any public announcement regarding the Restructuring Transaction, the Company will provide each Holder a reasonable opportunity to review and comment on such public announcements and cooperate with each Holder in good faith to incorporate any reasonable comments by such Holder. Prior to the Closing, Holders shall not make any public announcement regarding the Restructuring Transaction, except as may be required by Applicable Law, in which case the Holder proposing to issue such press release or make such public announcement shall use its reasonable best efforts to consult in good faith with the Company before making any such public announcements. On or before the first Business Day following execution of this Restructuring Agreement, the Company shall publicly disclose the material terms hereof in compliance with all applicable securities regulations.

4.2 Board of Director Composition. Steelhead shall not, either alone or in concert with others, take any action to remove or replace, or vote for the election of any individual seeking to replace, any member of the Board or Company's management until, but not including, the earlier of June 30, 2013 or the 2013 annual meeting of the Company. Notwithstanding the foregoing, (i) with respect to any individual director, Steelhead shall not be bound by the foregoing in the event that such director breaches his or her fiduciary duty as a director of the Company, and (ii) Steelhead shall not be bound by the foregoing in the event that the Company breaches in any material respect any of its obligations hereunder or as set forth in any other agreement contemplated herein.

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4.3 Future Distributions. Subject to applicable regulatory requirements regarding capital and reserves for operating expenses and taxes, the Company agrees to distribute a substantial majority (calculated net of payments under the CVR Certificate and the deductions applicable to such payments thereunder) of the proceeds of any award or settlement relating to the Brisas Project to its shareholders promptly following each receipt (if more than one) thereof.

4.4 Transfer Restrictions. Each Holder agrees not to sell or otherwise dispose of, directly or indirectly, any Subject Notes held by it other than pursuant to this Restructuring Agreement; provided, that the foregoing restriction shall cease to apply on the first Business Day following the earlier to occur of the Outside Date or the Closing Date.

4.5 No Redemption. The Company shall not exercise any right of redemption with respect to Notes held by Holders under Section 5.01 of the Indenture or otherwise; provided, that the foregoing shall not apply to the Amended Notes (which may only be redeemed in accordance with the terms set forth on Exhibits B hereto), or the Notes held by the Other Holders who do not participate in the Restructuring Transaction.

4.6 Registration. The Company shall, in accordance with the Securities Act and all applicable rules and regulations promulgated thereunder, prepare and file with the SEC a shelf registration statement on Form F-1 or Form F-3 or other suitable or successor form (the "Shelf Registration Statement") providing for the resale from time to time by the holders of the following Securities: (i) the Restructuring Transaction Shares, (ii) any Common Shares to be issued pursuant to the Contingent Value Rights, (iii) any Common Shares to be received upon redemption of the existing Notes in accordance with Section 2, (iv) the Amended Notes, and (v) any Common Shares issuable upon conversion of the Amended Notes, within forty-five (45) days following the Closing Date, and thereafter use its commercially reasonable efforts to cause such Shelf Registration Statement to be declared effective by the SEC within one hundred eighty (180) days following the Closing Date (the "Shelf Registration Deadline Date"). The failure by the Company to cause the Shelf Registration Statement to be declared effective by the SEC by the Shelf Registration Deadline Date shall be a breach of this Restructuring Agreement and the Company shall pay to each Holder, as liquidated damages and not a penalty, such Holder's pro rata portion of the Registration Liquidated Damages payable in respect of such Holder's holdings of Subject Notes; provided, that payments of any Registration Liquidated Damages owing shall be made on the earlier to occur of (A) the date on which the Shelf Registration Statement is declared effective by the SEC and (B) every fifth Business Day from the Shelf Registration Deadline Date through the date on which the Shelf Registration Statement is declared effective by the SEC.

4.7 Other Noteholders. The Company shall not offer to any Other Holder treatment with respect to the Notes which is more favorable to such Other Holder than the treatment provided to Holders in accordance with the terms hereof. Each Holder acknowledges that the Company may disclose in the materials related to the Tender Offer that the terms of the Restructuring Transaction will be made available to all Other Holders, such that the Other Holders will be able to elect to restructure some, all or none of the Notes held by them in accordance with the terms thereof, all on the same terms as made available to the Holders; provided, that the Schedule TO filed with the SEC with respect to the Tender Offer shall be in form and substance reasonably acceptable to the Majority Holders.

5. Events Of Default; Termination.

5.1 Events of Default of the Company. The occurrence of any of the following shall constitute an Event of Default with respect to the Company:

(a) the Company fails to perform or observe any agreement, covenant, term or condition contained herein, and such failure, if able to be remedied, continues unremedied for a period of five (5) days (or such shorter amount of time remaining prior to the Closing Date) after written notice thereof is given by the Majority Holders to the Company (and the Majority Holders have not subsequently agreed to waive such Event of Default, in their sole discretion); or

(b) the Company makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(c) any decree or order for relief in respect of the Company is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (the "Bankruptcy Law"), of any jurisdiction; or

(d) the Company petitions or applies to any Tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company, or of any substantial part of the assets of the Company, or commences a voluntary case under the Bankruptcy Law of the United States or any other jurisdiction or any proceedings (other than proceedings for the voluntary liquidation and dissolution of a wholly-owned Subsidiary) relating to the Company under the Bankruptcy Law of any other jurisdiction; or

(e) any such petition or application is filed, or any such proceedings are commenced, against the Company and the Company by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than sixty (60) days; or

(f) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than thirty (30) days.

5.2 Events of Default of a Holder. The occurrence of any of the following shall constitute an Event of Default with respect to a Holder:

(a) such Holder fails to perform or observe any agreement, covenant, term or condition contained herein, and, if able to be remedied, such failure continues unremedied for a period of five (5) days (or such shorter amount of time then remaining prior to the Closing Date) after written notice thereof is given such Holder; or

(b) such Holder makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(c) any decree or order for relief in respect of such Holder is entered under any Bankruptcy Law of any jurisdiction; or

(d) such Holder petitions or applies to any Tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company, or of any substantial part of the assets of such Party, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings (other than proceedings for the voluntary liquidation and dissolution of a Subsidiary) relating to such Holder under the Bankruptcy Law of any other jurisdiction; or

(e) any such petition or application is filed, or any such proceedings are commenced, against such Holder and that Holder by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than sixty (60) days; or

(f) any order, judgment or decree is entered in any proceedings against such Holder decreeing the dissolution of that Party and such order, judgment or decree remains unstayed and in effect for more than thirty (30) days.

5.3 Termination by Mutual Consent. This Restructuring Agreement may be terminated at any time prior to the Closing Date by the mutual written consent of the Company and the Holders.

5.4 Termination by the Company. This Restructuring Agreement may be terminated at any time prior to the Closing Date by the Company with respect to a Holder upon the occurrence of an Event of Default by such Holder. If the Company terminates this Restructuring Agreement with respect to any Holder, the Company shall immediately notify the other Holders. Any such termination shall not affect the liability of the breaching Party.

5.5 Termination by a Holder. This Restructuring Agreement may be terminated at any time prior to the Closing Date by the Holders as follows: (i) by the Majority Holders upon the occurrence of an Event of Default of the Company set forth in Section 5.1(a); (ii) by any Holder upon the occurrence of an Event of Default of the Company set forth in Section 5.1(b) – (f); (iii) by any Holder with respect to such Holder if the Company terminates the Restructuring Agreement with respect to any other Holder pursuant to Section 5.4; or (iv) by any Holder if the Closing of the Restructuring Transaction has not occurred by the Outside Date. Any such termination shall not affect the liability of the breaching Party or the Company's obligation to redeem the Notes as provided in Section 2 above upon the election of the Holder.

6. Representations, Covenants And Warranties of the Company. The Company represents, covenants and warrants as follows:

6.1 Organization; Power and Authority. The Company is a corporation duly organized and validly existing in good standing under the laws of its state of incorporation, and is duly licensed and in good standing as a foreign corporation in each jurisdiction in which the nature of the business transacted or the property owned is such as to require licensing or qualification as a foreign corporation. As of the date hereof, the Board has approved this Restructuring Agreement and all of the transactions contemplated hereby, and the Company has taken all necessary corporate action required for the due authorization, execution, delivery and performance by it of this Restructuring Agreement and all of the transactions contemplated hereby. The Company has the power and authority to execute and deliver this Restructuring Agreement and each document contemplated hereby and to perform its obligations hereunder and thereunder. This Restructuring Agreement has been duly executed and delivered by the Company as of the date hereof and constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, and each document contemplated hereby has been, or will be prior to the Closing Date, duly executed and delivered by the Company and constitutes, or will constitute prior to the Closing Date, a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms. All consents, approvals and authorizations required on the part of the Company in connection with the execution, delivery and performance of this Restructuring Agreement have been obtained and are effective as of the date hereof, and all consents, approvals and authorizations required on the part of the Company in connection with each document contemplated hereby have been obtained and will be effective as of the Closing Date. The entry by the Company into this Restructuring Agreement and each document contemplated hereby has not, and the performance of its obligations hereunder will not, violate or conflict with or result in any breach or default under the organizational documents of the Company, any agreement or instrument to which it or any of its subsidiaries or any of their assets are bound, or any laws, regulations or governmental or judicial decrees, injunctions or orders applicable to the Company or any of its subsidiaries.

6.2 Securities to be Issued to the Holders. The Securities amended by and to be issued to the Holders pursuant this Restructuring Agreement and each document contemplated hereby have been duly authorized by the Company and will be, upon execution, valid and binding obligations of the Company, enforceable in accordance with their respective terms.

6.3 Brisas Project. There is no information regarding the Arbitration Proceeding that has not been publicly disclosed that could have a material adverse impact on the Company or its prospects.

6.4 Regulatory Approval. The Company has informed the TSX Venture Exchange and the NYSE Amex of the principal terms set forth in this Restructuring Agreement and neither has indicated that it will object to or challenge the terms hereof or that any other approvals are required in respect hereof. No approvals are required form any other Governmental Authority.

6.5 Broker Fees. The Company has not entered into any contract, arrangement or understanding with any Person which may result in the obligation of the Company to pay any finder's fees, brokerage or other like payments in connection with the negotiations leading to this Restructuring Agreement or the consummation of the Restructuring Transaction.

6.6 Management Support. The Company has obtained from its officers and directors a support agreement in the form attached hereto as Exhibit D, pursuant to which such persons have committed to vote in favor of the Restructuring Transaction.

6.7 Company Employees. The Company has obtained from its employees and directors (i) waivers in the form attached hereto as Exhibit E, such that the sum total of all change of control payments triggered by the Restructuring Transaction (including the acceleration of any stock option, bonus or other award pursuant to any equity compensation plan or other bonus plan) that are payable (or potentially payable, if a termination of employment or other similar event is a further condition to the Company's payment obligation) will be less than $2,000,000 in the aggregate (including the effect of any tax "gross-up" payments). Any employee or director who does not execute such a waiver (or substantially similar waiver) will not be eligible to participate in any future equity compensation plan or bonus plan.

6.8 Shareholder Approval of Restructuring Transaction. The Company has obtained Shareholder Approval of the Restructuring Transaction.

6.9 Amendment to Company Shareholder Rights Plan. The amendment to the Company Shareholder Rights Plan in the form attached hereto as Exhibit F (the "Amendment to the Shareholder Rights Plan") to modify the provisions thereof to exempt application of the Company Shareholder Rights Plan to the Restructuring Transaction has been approved by the Shareholders and is effective as of the date hereof.

7. **Representations, Covenants And Warranties of the Holders**. Each Holder, severally and not jointly, represents and warrants as follows with respect to itself:

7.1 Organization; Power and Authority. Holder is an entity duly organized and validly existing in good standing under the laws of its state of organization. As of the date hereof, Restructuring Agreement and all of the transactions contemplated hereby have been approved by the requisite governing person or body of Holder, to the extent applicable and required, and Holder has taken all necessary action required for the due authorization, execution, delivery and performance by it of this Restructuring Agreement and the transactions contemplated hereby. Holder has the power and authority to execute and deliver this Restructuring Agreement and each document contemplated hereby to be executed by it and to perform its obligations hereunder and thereunder. This Restructuring Agreement has been duly executed and delivered by Holder as of the date hereof and constitutes a valid and binding obligation of Holder, enforceable against Holder in accordance with its terms, and each document contemplated hereby to be executed by it has been, or will be prior to the Closing Date, duly executed and delivered by the Holder and constitutes, or will constitute prior to the Closing Date, a valid and binding obligation of the Holder, enforceable against the Holder in accordance with its terms. All consents, approvals and authorizations required on the part of the Holder, if any, in connection with the execution, delivery and performance of this Restructuring Agreement have been obtained and are effective as of the date hereof, and all consents, approvals and authorizations required on the part of Holder, if any, in connection with each document contemplated hereby have been obtained and will be effective as of the Closing Date. The entry by the Holder into this Restructuring Agreement and each document contemplated hereby has not, and the performance of its obligations hereunder will not, violate or conflict with or result in any breach or default under the organizational documents of the Holder, any agreement or instrument to which it or any of its assets are bound, or any laws, regulations or governmental or judicial decrees, injunctions or orders applicable to the Holder.

7.2 Investment.

(a) Holder is an "accredited investor" as such term is used in Regulation D under the Securities Act;

(b) The name and address of the entity through which each Holder holds any Subject Notes is set forth on Schedule I, and such information set forth on Schedule I is true and correct in all material respects.

(c) Holder acknowledges that no person has been authorized to give any information or to make any representation concerning the Company or the Securities, if any, other than information made available by the Company on www.sec.gov, www.sedar.com, or www.goldreserveinc.com;

(d) Holder understands and accepts that an investment in the Securities involves various risks, including the risks outlined in the public filings made by the Company with the SEC pursuant to the reporting requirements of Section 13(a) or 15(d) of the Exchange Act and the rules and regulations adopted by the SEC thereunder (collectively, the "Securities Documents"); and

(e) Holder is familiar with the business and financial condition and operations of the Company, all as generally described in the Securities Documents.

7.3 Contingent Value Rights.

(a) Holder is acquiring the Contingent Value Rights solely for its own beneficial account, for investment purposes, and not with a view to, or for resale in connection with, any distribution of the Contingent Value Rights;

(b) Holder understands that the Contingent Value Rights have not been registered under the Securities Act or any state securities laws by reason of specific exemptions under the provisions thereof which depend in part upon Holder's investment intent and of the other representations made by Holder in this Restructuring Agreement;

(c) Holder understands that the Contingent Value Rights are "restricted securities" under applicable federal securities laws and that the Securities Act and the rules of the SEC provide in substance that Holder may dispose of the Contingent Value Rights only pursuant to an effective registration statement under the Securities Act or an exemption therefrom.

(d) Holder agrees: (i) it will not sell, assign, pledge, give, transfer or otherwise dispose of the Contingent Value Rights, or any interest therein, or make any offer or attempt to do any of the foregoing, except in a transaction registered under the Securities Act and all applicable state securities laws, or in a transaction which is exempt from the registration provisions of the Securities Act and all applicable state securities laws; (ii) that the CVR Certificate will bear a legend making reference to the foregoing restrictions; and (iii) that the Company shall not be required to give effect to any purported transfer of such Securities except upon compliance with the foregoing restrictions.

7.4 Broker Fees. Holder has not entered into any contract, arrangement or understanding with any Person which may result in the obligation of Holder to pay any finder's fees, brokerage or other like payments in connection with the negotiations leading to this Restructuring Agreement or the consummation of the Restructuring Transaction.

8. Definitions. For the purpose of this Restructuring Agreement, the terms defined in the introductory sentence and elsewhere in this Restructuring Agreement shall have the respective meanings specified therein, and the following terms shall have the meanings specified with respect thereto below (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

8.1 Terms.

"Additional Cash Consideration" means an amount equal to (x) \$500,000, plus (y) \$500,000 multiplied by a fraction, the numerator of which is the aggregate amount of Notes tendered by the Other Holders for participation in the Restructuring Transaction as contemplated by Section 4.7 and the denominator of which is the aggregate amount of Notes held by all Other Holders (\$500,000 of which was previously paid).

"Applicable Law" means any applicable law, rule, regulation, code, governmental determination, order, treaty, convention, governmental certification requirement or other public limitation, U.S. or non-U.S.

"Arbitration Award" means any settlement, award, or other payment made or other consideration transferred to the Company or any of its affiliates arising out of, in connection with or with respect to the Arbitration Proceedings, including, but not limited to the Proceeds received by the Company or its affiliates from a sale, pledge (except as provided for in Section 9 of the CVR Certificate), transfer or other disposition, directly or indirectly, of the Company's rights with respect to the Arbitration Proceedings.

“Arbitration Proceedings” means that certain arbitration proceeding commenced by the Company against the Bolivarian Republic of Venezuela pending before the International Centre for Settlement of Investment Disputes (“ICSID”) in Gold Reserve Inc. v. Bolivarian Republic of Venezuela (ICSID Case No. ARB(AF)/09/1)).

“Brisas Project” has the meaning set forth in the Securities Documents.

“Business Day” means any day on which banks are open for business in New York City (other than a legal holiday in Canada).

“Company Shareholder Rights Plan” means the 2009 Shareholder Rights Plan Agreement.

“Contingent Value Percentage” means, for each holder, the percentage of Contingent Value Rights set forth on Exhibit A hereto.

“Contingent Value Right” means, with respect to each Holder, the contingent value right entitling the holder thereof to, among other rights, the applicable Contingent Value Percentage of Proceeds received by the Company, net of certain deductions, with respect to an Arbitration Award and a Mining Data Sale, as further described in the CVR Certificate.

“CVR Certificate” means the Contingent Value Rights Certificate, substantially in the form of Exhibit C attached hereto, issued by the Company to each Holder.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Governmental Authority” means any foreign governmental authority, the United States of America, any State of the United States, and any political subdivision of any of the foregoing, and any central bank, agency, department, commission, board, bureau, court or other tribunal having jurisdiction over the holder of any Note, any Party or their respective Property.

First Quarter

$

16.75

$

12.80

Second Quarter

$

14.45

$

12.80

Third Quarter

$

14.25

$

11.20

Fourth Quarter

$

13.23

$

9.76

2017:

First Quarter

$

18.85

$

16.60

Second Quarter

$

20.95

$

18.25

Third Quarter

$

19.35

$

13.35

Fourth Quarter

$

17.10

$

13.40

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information, as of December 31, 2018, regarding securities authorized for issuance upon the exercise of stock options and vesting of restricted stock under all the Company's equity compensation plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Vesting of Stock Awards	(b) Weighted Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Stockholders (1)	96,744	$ 15.67	530,022
Total	96,744	$ 15.67	530,022

(1) Includes the 2012 Plan. For plan details, please refer to Note 7 in the Notes to our Consolidated Financial Statements.

In each of 2018 and 2017, we declared dividends totaling $0.68 per share on our Common Stock. There can be no assurance that we will continue to pay comparable cash dividends in the future.

During 2017, the Company granted a total of 87,076 shares of Restricted Stock to officers and employees. These shares of Restricted Stock vest over time in up to twenty equal quarterly installments. In 2017, 22,694 shares of Restricted Stock were forfeited as a result of directors and employees terminating employment with the Company.

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

The share issuances in all the above transactions were not registered under the Securities Act of 1933, as amended (the "Securities Act"). The issuances were exempt from registration pursuant to Section 4(2) of the Securities Act and/or Regulation D thereunder, as they were transactions by the issuer that did not involve public offerings of securities and/or involved issuances to accredited investors.

As of February 19, 2019, there were approximately 106 record holders of our Common Stock. This figure does not include an estimate of the number of beneficial holders whose shares are held of record by brokerage firms and clearing agencies.

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During the fourth quarter of 2018, we repurchased shares of our Common Stock as follows:

Period	Total Number of Shares Purchased		Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid Per Share (3)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (4)
October 1, 2018 - October 31, 2018	—		$ —	—	$ —	547,488
November 1, 2018 - November 30, 2018	1,729	(1)	$ 12.44	—	$ —	547,488
December 1, 2018 - December 31, 2018	—		$ —	—	$ —	547,488
Total	1,729		$ 12.44	—	$ —	547,488

(1) Includes 1,729 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of Restricted Stock. These shares are not included in the Common Stock repurchase program referred to in footnote (4) below.

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

(3) Average price paid per share reflects the price of the Company's Common Stock purchased on the open market.

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

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STOCK PRICE PERFORMANCE GRAPH

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Company's Common Stock with the cumulative total return of the S&P Midcap 400 Index and the S&P 500 Computer and Electronics Retail Index for the period commencing December 31, 2013 and ending December 31, 2018, assuming $100 was invested on December 31, 2013 and the reinvestment of dividends.

	Base Period	INDEXED RETURNS Year ended				
Company / Index	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Wayside Technology Group, Inc.	100	132.71	146.87	155.72	144.68	91.43
S&P MidCap 400 Index	100	109.77	107.38	129.65	150.71	134.01
S&P 500 Computer & Electronics Retail Index	100	90.85	75.04	111.72	183.77	145.91

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Item 6. Selected Financial Data

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

The selected financial data for the years ended December 31, 2018, 2017 and 2016 reflects our adoption of ASC 606 – Revenue from Contracts with Customers ("ASC 606"). We have not adjusted the selected financial data for any other period presented. See Note 3 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10K.

Year Ended December 31,

(Amounts in thousands, except per share amounts)

	Reflects Impact of ASC 606 Adoption				
	2018	2017	2016	2015	2014
Consolidated Statement of Operations Data:					
Net sales - (1)	$ 181,444	$ 160,567	$ 164,609	$ 382,090	$ 340,758
Cost of sales	154,524	133,491	137,278	355,517	315,948
Gross profit	26,920	27,076	27,331	26,573	24,810
Selling, general and administrative expenses	20,319	19,263	18,715	18,063	16,513
Separation expenses	2,446	—	—	—	—
Income from operations	4,155	7,813	8,616	8,510	8,297
Other income, net	962	740	317	348	461
Income before provision for income taxes	5,117	8,553	8,933	8,858	8,758
Provision for income taxes	1,579	3,491	3,032	3,028	2,998
Net income	$ 3,538	$ 5,062	$ 5,901	$ 5,830	$ 5,760

Net income per common share					
Basic	$ 0.78	$ 1.13	$ 1.25	$ 1.22	$ 1.20
Diluted	$ 0.78	$ 1.13	$ 1.25	$ 1.22	$ 1.20
Weighted average common shares outstanding:					
Basic	4,358	4,299	4,503	4,634	4,661
Diluted	4,358	4,299	4,503	4,634	4,661
Net income excluding separation expenses, net of tax (Non-GAAP) - (2)	$ 5,546	$ 5,062	$ 5,901	$ 5,830	$ 5,760
Diluted earnings per share excluding separation expenses, net of tax (Non-GAAP) - (3)	$ 1.23	$ 1.13	$ 1.25	$ 1.22	$ 1.20

(1) See Note 3 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10K, for information related to the impact on revenue from the adoption of ASC 606, effective January 1, 2018.

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

(3) Excludes $0.45 per share in expenses related to a separation and release agreement the Company entered into with its former Chairman and Chief Executive Officer upon on his resignation on May 11, 2018, consisting of $0.55 per share of separation expenses, net of $0.10 per share in tax benefits.

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The selected financial data as of December 31, 2018 and 2017 reflects our adoption of ASC 606 – Revenue from Contracts with Customers (“ASC 606”). We have not adjusted the selected financial data as of any other date presented. See Note 3 to the Consolidated Financial Statements in Part II, Item 8 of this Form 10K.

December 31,

(Amounts in thousands, except per share amounts)

	2018	2017	2016	2015	2014
Balance Sheet Data:					
Cash and cash equivalents	$ 14,883	$ 5,530	$ 13,524	$ 23,823	$ 23,124
Working capital	36,214	29,859	24,477	30,568	31,161
Total assets	107,971	104,690	113,698	94,082	94,981
Total stockholders’ equity	40,573	38,712	37,611	38,659	39,567

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

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

Overview

Our Company is an IT channel company, primarily selling software and other third-party IT products and services through two reportable operating segments. Through our “Lifeboat Distribution” segment we sell products and services to corporate resellers, value added resellers (VARs), consultants and systems integrators worldwide, who in turn sell these products to end users. Through our “TechXtend Segment” we act as a value-added reseller, selling computer software and hardware developed by others and provide technical services directly to end user customers in the USA and Canada. We offer an extensive line of products from leading 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.

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

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Factors Influencing Our Financial Results

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

We sell in a competitive environment where gross product margins have historically declined due to competition and changes in product mix towards products where no delivery of a physical product is required. To date, we have been able to implement cost efficiencies such as the use of drop shipments, electronic ordering (“EDI”) and other capabilities to be able to operate our business profitably as gross margins have declined.

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

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

Dividend Policy and Share Repurchase Program. Historically we have sought to return value to investors through the payment of quarterly dividends and share repurchases. Total dividends paid and the dollar value of shares repurchased were $3.1 and $1.0 million for the year ended December 31, 2018, respectively, and $3.1 million and $3.0 million for the year ended December 31, 2017, respectively. The payment of future dividends is at the discretion of our Board of Directors and dependent on results of operations, projected capital requirements and other factors the Board of Directors may find relevant.

Stock Volatility. The technology sector of the United States stock markets is subject to substantial volatility. Numerous conditions which impact the technology sector or the stock market in general or the Company in particular, whether or not such events relate to or reflect upon the Company's operating performance, could adversely affect the market price of the Company's Common Stock. Furthermore, fluctuations in the Company's operating results, announcements regarding litigation, the loss of a significant vendor or customer, increased competition, reduced vendor incentives and trade credit, higher operating expenses, and other developments, could have a significant impact on the market price of our Common Stock.

We adopted ASC 606 Revenue from Contracts with Customers effective January 1, 2018. Using the full retrospective method, we recasted our historical financial information to reflect the adoption as of the earliest reporting period presented. Under ASC 606, net sales for certain maintenance, service and security products we sell are recorded net of the related cost of sales. We refer to these items as being recorded on a "net basis" in the discussion below. Software and hardware products for which sales and cost of sales are reported on separate line items are referred to as being recorded on a "gross basis".

Financial Overview

Net sales increased 13%, or $20.8 million, to $181.4 million for the year ended December 31, 2018, compared to $160.6 million for the same period in 2017. Gross profit decreased 1%, or $0.2 million, to $26.9 million for the year ended December 31, 2018, compared to $27.1 million in the prior year. Selling, general and administrative (“SG&A”) expenses increased 5%, or $1.0 million, to $20.3 million for the year ended December 31, 2018, compared to $19.3 million in the prior year. Separation expenses were $2.4 million for the year ended December 31, 2018; there were no such expenses in the prior year. Net income decreased 30%, or $1.6 million, to $3.5 million for the year ended December 31, 2018, compared to $5.1 million in the prior year. Weighted Average diluted shares outstanding increased by 1% from the prior year. Income per share diluted decreased 31% to $0.78 for the year ended December 31, 2018, compared to $1.13 for the same period in 2017.

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. Revenues from the sales of hardware products, software products, licenses, maintenance and subscription agreements are recognized on a gross basis upon delivery or fulfillment, with the selling price to the customer recorded as sales and the acquisition cost of the product recorded as cost of sales.

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

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

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

Revenue

The Company adopted ASC 606 using the full retrospective method effective January 1, 2018. See Note 3 to the accompanying financial statements for further information. The Company utilizes judgement regarding performance obligations inherent in the products for services it sells including, whether ongoing maintenance obligations performed by third party vendors are distinct from the related software licenses, and allocation of sales prices among distinct performance obligations. These estimates require significant judgment to determine whether the software's functionality is dependent on ongoing maintenance or if substantially all functionality is available in the original software download. We also use judgment in the allocation of sales proceeds among performance obligations, utilizing observable data such as stand-alone selling prices, or market pricing for similar products and services.

Allowance for Accounts Receivable

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

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Accounts Receivable – Long Term

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

Inventory Allowances

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

Income Taxes

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

Share-Based Payments

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

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. In March, April, May and December 2016, the FASB issued additional updates to the new accounting standard which provide supplemental adoption guidance and clarifications. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The Company adopted the new standard on January 1, 2018, using the full retrospective method which required us to recast our historical financial information to reflect the adoption as of the earliest reporting period presented. The most significant impact of adopting the standard relates to the determination of whether the Company is acting as a principal or an agent in the sale of third-party security software and software that is highly interdependent with support, as well as maintenance, support or other services. For additional information on the impact to reported results, please see Note 3 of the Consolidated Financial Statements in Part II of this Annual Report on Form 10-K.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance under FASB ASC Topic 840, Leases, resulting in the creation of FASB ASC Topic 842, Leases. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term from operating leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors were originally required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, FASB issued ASU No. 2018-11, Targeted Improvements. This update still requires modified

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retrospective transition; however, it adds the option to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment in the current period instead of at the beginning of the earliest period presented. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company expects to elect to adopt the new accounting standard using the modified retrospective transition option. The Company is in the process of finalizing its evaluation of current leases and quantifying the impact to its balance sheet. The Company expects to recognize right of use assets and leases liabilities between $2.5 million and $3.5 million as of January 1, 2019. The Company does not expect the adoption of this standard to have a material impact on the Company's Consolidated Statements of Earnings.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU No. 2016-13"). ASU No. 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU No. 2016-13 is effective for the Company in the first quarter of 2020, with early adoption permitted, and is to be applied using a modified retrospective approach. The Company is currently evaluating the potential effects of adopting the provisions of ASU No. 2016-13 on its Consolidated Financial Statements, particularly its recognition of allowances for accounts receivable.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows ("ASU 2016-15") which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The new standard became effective for the Company beginning with the first quarter of 2018. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued ASU No. 2017-09, "Scope of Modification Accounting", to reduce diversity in practice and provide clarity regarding existing guidance in ASC 718, "Stock Compensation". The amendments in this updated guidance clarify that an entity should apply modification accounting in response to a change in the terms and conditions of an entity's share-based payment awards unless three newly specified criteria are met. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The new guidance was effective for the Company on a prospective basis beginning on January 1, 2018 and did not impact the Company's Consolidated Financial Statements as it is not the Company's practice to change either the terms or conditions of stock-based payment awards once they are granted.

In February 2018, the FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"), which permits the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act (the "TCJA" or "U.S. tax reform") from Accumulated other comprehensive income (loss) to Retained earnings. This new guidance is effective for the Company beginning on January 1, 2019 and must be applied either in the period of adoption or retrospectively to periods in which the effects of the TCJA are recognized. The adoption of this guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In March 2018, the FASB issued ASU 2018-05, "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update), Income Taxes (Topic 740)" ("ASU 2018-05"). ASU 2018-05 provides guidance regarding the recording of tax impacts where uncertainty exists, in the period of adoption of the TCJA, which allowed companies to reflect provisional amounts for those specific income tax effects of the TCJA for which the accounting under ASC Topic 740 is incomplete but for which a reasonable estimate could be determined. The Company completed its Federal and State income tax filings for 2017 with no material change to amounts previously reported.

In June 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-07, "Compensation — Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting," which aligns the measurement and classification guidance for share-based payments to nonemployees with that for employees, with certain exceptions. It expands the scope of ASC 718 to include share-based payments granted to nonemployees in exchange for goods or services used or consumed in the entity's own operations and supersedes the guidance in ASC 505-50. The ASU retains the existing cost attribution guidance, which requires entities to recognize compensation cost for nonemployee awards in the same period and in the same manner (i.e., capitalize or expense) they would if they paid cash for the goods or services, but it moves the guidance to ASC 718. The guidance also allows nonpublic entities to account for nonemployee awards using certain practical expedients that are already available for employee awards, but the same accounting policies must be used for awards to both employees and nonemployees. ASU 2018-07 is effective for fiscal years beginning after

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December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this guidance.

In July 2018, the FASB issued ASU 2018-09 – Codification Improvements ("ASU 2018-09"), which facilitates amendments to a variety of topics to clarify, correct errors in, or make minor improvements to the accounting standards codification. The effective date of the standard is dependent on the facts and circumstances of each amendment. Some amendments do not require transition guidance and will be effective upon the issuance of this standard. Most of the amendments in ASU 2018-09 will be effective in annual periods beginning after December 15, 2018. This new guidance is effective for the Company beginning on January 1, 2019 and is not expected to have a material impact on the Company's Consolidated Financial Statements and related disclosures.

Results of Operations

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

	Year ended December 31,					
	2018		2017		2016	
Net sales	100	%	100	%	100	%
Cost of sales	85.2		83.1		83.4	
Gross profit	14.8		16.9		16.6	
Selling, general and administrative expenses	11.2		12.0		11.4	
Separation expenses	1.3		—		—	
Income from operations	2.3		4.9		5.2	
Other income	0.5		0.5		0.2	
Income before income taxes	2.8		5.3		5.4	
Income tax provision	0.9		2.2		1.8	
Net income	1.9	%	3.2	%	3.6	%

Non-GAAP Financial Measures

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

Reconciliation of net sales to adjusted gross billings (Non-GAAP):	Year ended December 31, 2018	2017	2016
Net sales	$ 181,444	$ 160,567	$ 164,609
Costs of sales related to Software – security or highly interdependent with support and maintenance, support or other services	328,506	288,812	253,522
Adjusted gross billings	$ 509,950	$ 449,379	$ 418,131

We define adjusted gross billings as net sales in accordance with US GAAP, adjusted for the cost of sales related to Software – security or highly interdependent with support and maintenance, support or other services. We provided a reconciliation of adjusted gross billings to net sales, which is the most directly comparable US GAAP measure. We use adjusted gross billings of product and services as a supplemental measure of our performance to gain

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insight into the volume of business generated by our business, and to analyze the changes to our accounts receivable and accounts payable. Our use of adjusted gross billings of product and services as analytical tools has limitations, and you should not consider it in isolation or as substitutes for analysis of our financial results as reported under US GAAP. In addition, other companies, including companies in our industry, might calculate Adjusted gross billings of product and services or similarly titled measures differently, which may reduce their usefulness as comparative measures.

Reconciliation of net income to net income excluding separation expenses, net of tax (Non-GAAP):	Year ended December 31, 2018	2017	2016
Net income	$ 3,538	5,062	5,901
Separation expenses	2,446	-	-
Income tax benefits related to separation expenses	(438)	-	-
Net income excluding separation expenses, net of taxes	$ 5,546	$ 5,062	$ 5,901

We use net income excluding separation expenses as a supplemental measure of our performance to gain insight into comparison of our businesses profitability when compared to the prior year. Our use of net income excluding separation expenses, net of tax has limitations, and you should not consider it 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 separation expenses net of tax, or similarly titled measures differently, which may reduce their usefulness as comparative measures.

	Year ended December 31, 2018	2017	2016
Net sales	$ 181,444	$ 160,567	$ 164,609
Adjusted gross billings (Non-GAAP)	$ 509,950	$ 449,379	$ 418,131
Gross profit	$ 26,920	$ 27,076	$ 27,331
Net income	$ 3,538	$ 5,062	$ 5,901
Net income excluding Separation expense (Non-GAAP)	$ 5,546	$ 5,062	$ 5,901
Gross margin % - Net sales	14.8%	16.9%	16.6%
Gross margin % - Adjusted gross billings (Non-GAAP)	5.3%	6.0%	6.5%
Net income - % of Net sales	1.9%	3.2%	3.6%
Net income - % of Adjusted gross billings (Non-GAAP)	0.7%	1.1%	1.4%
Net income excluding Separation expense % - Net sales (Non-GAAP)	3.1%	3.2%	3.6%

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net Sales

Net sales increased 13%, or $20.8 million, to $181.4 million for the year ended December 31, 2018, from $160.6 million for the same period in 2017. Net sales in our Lifeboat Distribution segment increased $21.9 million, or 15%, to $163.5 million when compared to the prior year. This increase was offset, in part, by decreased net sales in our TechXtend segment (discussed below). Adjusted gross billings for the year ended December 31, 2018 increased 13%, or $60.6 million, to $510.0 million compared to $449.4 million for the same period in 2017.

The increase in our Lifeboat Distribution segment was primarily due to growth in sales penetration for several of our more significant product lines, the addition of several new product lines, as well as product mix shift resulting in an increased percent of our sales being reported on a gross basis. The increases were partially offset by turnover in some vendor and customer accounts, including the termination of one of our vendor distribution agreements that accounted for less than 10% of net sales. While the tenure of our vendor relationships is generally for multiple years, the contractual terms of the distribution agreements themselves are short term in nature and vendors consolidate or change their relationships for various reasons. We operate in a competitive market in which vendor distribution and sales agreements are subject to turnover due to competitive bidding processes and other factors. Approximately 9.1% of our net sales during the year ended December 31, 2018 was attributable to security, maintenance and third-party service products which are recorded on a net basis compared to 10.4% in the same period of the prior year. Adjusted gross billings for the Lifeboat Distribution segment for the year ended increased 13%, or $52.3 million, to $469.7 million for the year ended December 31, 2018 compared to $417.4 million for the prior year.

TechXtend segment net sales decreased $1.0 million, or 5%, to $17.9 million for the year ended December 31, 2018, compared to $18.9 million for the prior year. Sales in our TechXtend segment may vary significantly from year to year based on the timing of IT spending decisions by our larger customers and internal capital allocation decisions regarding the amount of capital we allocate to the extended payment program. Adjusted gross billings for the TechXtend segment for the year ended increased 26%, or $8.3 million, to $40.3 million for the year ended December 31, 2018 compared to $32.0 million for the prior year.

During the year ended December 31, 2018, we relied on two key customers for a total of 42.2% of our total net sales. One major customer accounted for 25.6% and the other for 16.6%, of our total net sales during the year ended December 31, 2018. These same customers accounted for 35.5% and 14.9%, of total net accounts receivable as of December 31, 2018.

Gross Profit

Gross profit for the year ended December 31, 2018 decreased 1%, or $0.2 million, to $26.9 million compared to $27.1 million for the prior year. Lifeboat Distribution segment gross profit increased 1%, or $0.2 million, to $23.4 million for the year ended December 31, 2018 compared to $23.2 million for the prior year due to higher net sales which were partially offset by the impact of lower gross margin as a percentage of net sales. TechXtend segment gross profit decreased 11%, or $0.4 million, to $3.5 million for the year ended December 31, 2018 compared to $3.9 million for the prior year due to the decreased level of net sales discussed above.

Gross profit margin (gross profit as a percentage of net sales) for the year ended December 31, 2018 was 14.8% compared to 16.9% in 2017. Lifeboat Distribution segment gross profit margin was 14.3% for the year ended December 31, 2018, compared to 16.4% in 2017. TechXtend segment gross profit margin for the year ended December 31, 2018 was 19.5%, compared to 20.6% in 2017. The decreases in gross profit margin were primarily caused by lower gross profit margins as a percent of net sales for hardware, software and other product sales which are reported on a gross basis and a change in the percentage mix of our products which are recorded net of the related cost of sales. During the year ended December 31, 2018 approximately 9.1% of our net sales was attributable to security, maintenance and third-party service products which are recorded on a net basis, or an effective 100% gross profit margin, compared to 10.4% in 2017. This shift in product mix had the effect of reducing gross profit as a percent of net sales by 90 basis points. The remainder of the decline was caused by lower gross profit margin on software and hardware products recorded on a gross basis, as growth in these products was primarily from high volume lines which are sold at lower gross profit margin than our average gross profit. We operate in a competitive environment where the trend has been and may continue to be for gross profit margins as a percentage of adjusted gross billings to decline.

Vendor rebates and discounts for the year ended December 31, 2018 were $2.4 million compared to $2.2 million in the same period last 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 year ended December 31, 2018 increased 5%, or $1.0 million, to $20.3 million, compared to $19.3 million for the prior year. The increase in general and administrative expenses is primarily due to higher business development and field sales personnel expenses, as well as professional and public company related costs. SG&A expenses as a percentage of net sales were 11.2% for the year ended December 31, 2018 compared to 12.0% in 2017.

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

Separation Expense

Separation expense for the year ended December 31, 2018 was $2.4 million related to the resignation of our former Chairman, President and Chief Executive Officer on May 11, 2018, consisting of a $1.7 million charge for accelerated vesting of restricted stock and $0.8 million in cash payments to be made over twelve months. There was no separation expense during 2017.

Income Taxes

For the year ended December 31, 2018, the Company recorded a provision for income taxes of $1.6 million, or 30.9% of income before taxes, compared to $3.5 million or 40.8% of income before taxes for 2017. The Company's effective tax rate for the year ended December 31, 2018 was impacted by limitations on the deductibility of executive compensation resulting from Section 162(m) of the Internal Revenue Code, and adjustments to the accrual for state income taxes in states which have enacted economic nexus statutes. The Company recorded a $0.4 million tax benefit related to separation expenses during the year ended December 31, 2018, resulting in a 16.5% effective tax benefit rate on that expense. We also adjusted our provision for state income taxes in states with economic nexus statutes by $0.2 million. The effective tax rate for ordinary income was 24.2% for the year ended December 31, 2018. The 2017 tax expense includes charges of $0.2 million resulting from the revaluation of deferred tax assets and transition tax for foreign unrepatriated earnings under the TCJA, and approximately $0.4 million related to a provision for state taxes for states with economic nexus statutes and other adjustments.

The TCJA was enacted on December 22, 2017 and introduced significant changes to the U.S. income tax law. Effective in 2018, the TCJA reduced U.S. statutory tax rates from 34% to 21%. Accordingly, we remeasured our deferred taxes as of December 31, 2017 to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized.

Due to the timing of the enactment and the complexity involved in applying the provisions of TCJA, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of December 31, 2017. We completed our Federal and State income tax filings for 2017 with no material changes to amounts previously reported.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net Sales

Net sales, as reflected for the adoption of ASC 606 where using the full retrospective method we recasted our historical financial information to reflect the adoption as of the earliest reporting period presented, for the year ended December 31, 2017 decreased 2%, or $4.0 million, to $160.6 million, compared to $164.6 million for the same period in 2016. Adjusted gross billings for the year ended December 31, 2017 increased 7%, or $31.3 million, to $449.4 million, compared to $418.1 million for the same period in 2016.

Lifeboat Distribution segment net sales for the year ended December 31, 2017 increased 3%, or $4.6 million, to $141.7 million, compared to $137.1 million for the same period a year earlier. The increase in our Lifeboat Distribution segment was primarily due to growth in sales penetration for several of our more significant product lines, as well as the addition of several new product lines. The increases were partially offset by turnover in some vendor and customer accounts due to competitive bid situations. We operate in a competitive market in which some sales agreements are subject to periodic competitive bidding processes, resulting in fluctuations from year to year based on the outcome. Adjusted gross billings for the Lifeboat Distribution segment increased 13%, or $47.9 million, to $417.4 million for the year ended December 31, 2017, compared to $369.5 million for the same period in 2016.

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TechXtend segment net sales decreased 31%, or $8.6 million, to $18.9 million for the year ended December 31, 2017, compared to $27.5 million for the prior year. The decrease in TechXtend was due primarily to lower large enterprise sales, including those sold under extended payment terms. Large enterprise sales tend to fluctuate from period to period based on the timing of customer purchasing decisions for IT projects. The Company's focus on extended payment sales is impacted by such timing, and internal capital allocation decisions. During 2017, a significant amount of our working capital was invested in vendor prepayments and extended payment sales from the fourth quarter of 2016, reducing our emphasis on this business during 2017. Adjusted gross billings for the TechXtend segment decreased 34%, or $16.6 million, to $32.0 million for the year ended December 31, 2017, compared to $48.6 million for the same period in 2016.

Gross Profit

Gross profit for the year ended December 31, 2017 decreased 1%, or $0.2 million, to $27.1 million, compared to $27.3 million for the same period in 2016. Lifeboat Distribution segment gross profit increased 4%, or $0.9 million, to $23.2 million for the year ended December 31, 2017, compared to $22.3 million for the same period in the prior year. TechXtend segment gross profit decreased 22%, or $1.1 million, to $3.9 million for the year ended December 31, 2017, compared to $5.0 million for the same period in the prior year. Gross profit decreased primarily due to lower extended payment terms sales in our TechXtend segment described above and vendor competitive pressures on gross profit margins as discussed below, which were mitigated in part by the impact of increased sales in our Lifeboat Distribution segment.

Gross profit margin (gross profit as a percentage of net sales) for the year ended December 31, 2017 was 16.9% compared to 16.6% in 2016. Lifeboat Distribution segment gross profit margin was 16.4% for the year ended December 31, 2017 compared to 16.3% in 2016. TechXtend segment gross profit margin for the year ended December 31, 2017 was 20.6% compared to 18.1% in 2016. The increase in gross profit margin was due to a decrease in larger enterprise and public sector sales. Sales of large enterprise licenses and related equipment typically carry a lower gross profit margin as a percent of gross billings, and lower incremental selling and administrative costs as a percentage of revenue, than smaller account sales.

Vendor rebates and discounts for the year ended December 31, 2017 was $2.2 million compared to $2.0 million in 2016. Vendor rebates are dependent on reaching certain targets set by our vendors. The Company monitors vendor rebate levels, competitive pricing, and gross profit margins carefully. We anticipate that price competition in our market will continue in both of our business segments.

Selling, General and Administrative Expenses

SG&A expenses for the year ended December 31, 2017 increased $0.6 million or 3% to $19.3 million, compared to $18.7 million for the same period in 2016. The increase in general and administrative expenses is primarily due to higher employee related and other expenses to support our growth and compliance as a public company. SG&A expenses were 12.0% of net sales for the year ended December 31, 2017, and 11.4% for the same period in 2016.

The Company expects that its SG&A expenses, as a percentage of net sales, may vary depending on changes in sales volume, as well as the levels of continuing investments in key growth initiatives. We plan to continue to expand our investment in information technology and marketing, while monitoring our sales and general and administrative expenses closely.

Income Taxes

For the year ended December 31, 2017, the Company recorded a provision for income taxes of $3.5 million, or 40.8% of income before taxes, compared to $3.0 million or 33.9% of income before taxes for 2016. The 2017 tax expense includes charges of $0.2 million resulting from the revaluation of deferred tax assets and transition tax for foreign unrepatriated earnings under the TCJA, and approximately $0.4 million related to a provision for state taxes for states with economic nexus statutes and other adjustments.

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The TCJA was enacted on December 22, 2017 and introduced significant changes to the U.S. income tax law. Effective in 2018, the TCJA reduces U.S. statutory tax rates from 34% to 21%. Accordingly, we remeasured our deferred taxes as of December 31, 2017 to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized.

Due to the timing of the enactment and the complexity involved in applying the provisions of the TCJA, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of December 31, 2017. We completed our Federal and State income tax filings for 2017 with no material changes to amounts previously reported.

Liquidity and Capital Resources

Our cash and cash equivalents increased by $9.4 million to $14.9 million at December 31, 2018 from $5.5 million at December 31, 2017. The increase in cash was primarily the result of cash provided by operating activities of $13.9 million offset, in part, by use of cash for stock repurchases and dividends of $4.1 million.

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

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

Net cash used by operating activities for the year ended December 31, 2017 was $2.0 million, comprised of net income adjusted for non-cash items of $6.5 million, offset by cash used in changes in operating assets and liabilities of $8.5 million. Net cash used in operating activities for the year ended December 31, 2016 was $0.5 million, comprised of net income adjusted for non-cash items of $7.6 million, offset by cash used by changes in operating assets and liabilities of $8.1 million.

The increase in cash used in changes in operating assets and liabilities in 2017 was primarily due to an increase in net working capital (accounts receivable, inventory, and vendor prepayments less accounts payable) required to support our business. The increased working capital requirement is primarily driven by increased sales levels and extended payment terms sales during the fourth quarter of 2016, and a vendor prepayment of approximately $8.0 million as part of a distribution agreement. Our accounts receivable – long term increased by approximately $4.3 million during the fourth quarter of 2016 due to a higher level of extended payment term sales. The products related to these sales were paid for in the first quarter of 2017, while related sales proceeds will be collected over future periods.

In 2018, net cash used in investing activities was $0.3 million, compared to $0.4 million and $1.0 million in 2017 and 2016, respectively. The decrease from 2016 to 2017 was primarily due to capital expenditures for equipment and leasehold improvements related to our new office in 2016. In October 2016, the Company moved into a new office, occupying approximately 20,000 square foot facility under a ten-year lease with renewal options.

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

Net cash used in financing activities for the year ended December 31, 2017 of $6.0 million was comprised of $3.1 million of dividend payments on our Common Stock, and $3.0 million for the purchases of treasury shares of our Common Stock.

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On December 3, 2014, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. On February 2, 2017, the Board of Directors approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. The Company is authorized to purchase 547,488 shares of Common Stock as of December 31, 2018. The Common Stock repurchase program does not have an expiration date.

As of December 31, 2018, we held 788,006 shares of our Common Stock in treasury at an average cost of $17.06 per share. As of December 31, 2017, we held 829,671 shares of our Common Stock in treasury at an average cost of $17.12 per share. We intend to hold the repurchased shares in treasury for general corporate purposes, including issuances under various stock plans.

On November 15, 2017, the Company entered into a $20,000,000 revolving credit facility (the "Credit Facility") with Citibank, N.A. ("Citibank") pursuant to a Second Amended and Restated Revolving Credit Loan Agreement (the "Loan Agreement"), Second Amended and Restated Revolving Credit Loan Note (the "Note"), Second Amended and Restated Security Agreement (the "Security Agreement") and Second Amended and Restated Pledge and Security Agreement (the "Pledge Agreement"). The Credit Facility, which will be used for working capital and general corporate purposes, matures on August 31, 2020, at which time the Company must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any interest, fees, costs and expenses, if any.

At December 31, 2018 and 2017, the Company had no borrowings outstanding under the Credit Facility. The Company incurred $0.1 million of interest expense, related to the Credit Facility for the years ended December 31, 2018 and 2017.

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

Contractual Obligations as of December 31, 2018

(Amounts in thousands)

Payment due by Period	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases Obligations (1)	$ 3,776	$ 484	$ 1,257	$ 935	$ 1,100
Total Contractual Obligations	$ 3,776	$ 484	$ 1,257	$ 935	$ 1,100

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

As of December 31, 2018, the Company is not committed by lines of credit or standby letters of credit, and has no standby repurchase obligations or other commercial commitments (see Note 6 - Credit Facility in the Notes to our Consolidated Financial Statements).

Foreign Exchange

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

Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any off-balance sheet arrangements, as defined in Item 303 (a)(4)(ii) of SEC Regulation S-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

In addition to its activities in the USA, 7% and 6% of the Company's 2018 sales were generated in Canada and Europe and the rest of the world, respectively. We are subject to general risks attendant to the conduct of business in Canada and other countries, including economic uncertainties and foreign government regulations. In addition, the Company's foreign businesses are subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors.

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

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

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

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

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Management, with the participation of our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2018.

In January 2018, we implemented certain internal controls over financial reporting in conjunction with our adoption of ASC Topic 606, Revenue from Contracts with Customers. Also, during 2018, in conjunction with our outside consultants, we modified certain account review procedures and trained personnel to remediate deficiencies in our internal controls that we identified in 2017 that when viewed in aggregate constituted a material weakness in our internal controls. These deficiencies related to documentation and review procedures in our financial close process. There were no changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our independent registered public accounting firm, BDO USA, LLP, has audited our internal control over financial reporting as of December 31, 2018. Their attestation report on the audit of our internal control over financial reporting is included below.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required hereunder, with the exception of the information relating to the Company's Code of Ethical Conduct that is presented in Part I under the heading "Available Information," is incorporated by reference herein from our Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A not later than May 1, 2019 (the "Definitive Proxy Statement") under the sections captioned "Election of Directors," "Corporate Governance" and "Section 16 (a) Beneficial Ownership Reporting Compliance."

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

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

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PART IV

Item 15. Exhibits, Financial Statement Schedules

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

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

2. Financial Statement Schedule:

Schedule II Valuation and Qualifying Accounts

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

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

Exhibit No.	Description of Exhibit
3.1	Form of Amended and Restated Certificate of Incorporation of the Company. (1)
3.1(a)	Certificate of Amendment of Restated Certificate of Incorporation of the Company. (2)
3.2	Form of Amended and Restated By-Laws of the Company. (1)
4.1	Specimen of Common Stock Certificate. (1)
10.1	Second Amended and Restated Revolving Credit Loan Agreement, dated November 15, 2017, by and among Wayside Technology Group, Inc., Lifeboat Distribution, Inc., Techxtend, Inc., Programmer's Paradise, Inc., and ISP International Software Partners, Inc., as Co-Borrowers, and Citibank, N.A., as Lender. (7)
10.2	

	Second Amended and Restated Credit Loan Note, dated November 15, 2017, by and among Wayside Technology Group, Inc., Lifeboat Distribution, Inc., Techxtend, Inc., Programmer's Paradise, Inc., and ISP International Software Partners, Inc., as Co-Borrowers, and Citibank, N.A., as Lender. (7)
10.3	Second Amended and Restated Security Agreement, dated November 15, 2017, by and among Wayside Technology Group, Inc., Lifeboat Distribution, Inc., Techxtend, Inc., Programmer's Paradise, Inc., and ISP International Software Partners, Inc., as Debtors, and Citibank, N.A., as Lender. (7)
10.4	Second Amended and Restated Pledge and Security Agreement, dated November 15, 2017, by and between Wayside Technology Group, Inc., as Grantor, and Citibank, N.A., as Secured Party. (7)
10.5	Code of Ethics and Business Conduct. (8)
10.6	Employment agreement dated January 3, 2018 between the Company and Dale Foster. (9)
10.7	Employment agreement dated January 2, 2018 between the Company and Charles Bass. (9)
10.10	Form of Officer and Director Indemnification Agreement. (10)

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Exhibit No.	Description of Exhibit
10.11	2012 Stock-Based Compensation Plan. (6)
10.13	Employment Agreement, dated January 12, 2006, between the Company and Simon F. Nynens. (4)
10.14	Offer Letter, dated January 6, 2003, from the Company to Vito Legrottaglie. (5)
10.28	Form of Non-Qualified Stock Option Agreement. (3)
21.1	Subsidiaries of the Registrant. (11)
23.1	Consent of BDO USA, LLP. (11)
23.2	Consent of EisnerAmper LLP. (11)
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Steve DeWindt, the Chief Executive Officer of the Company. (11)
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Michael Vesey, the Vice President and Chief Financial Officer of the Company. (11)
31.3	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Kevin T. Scull, the Vice President and Chief Accounting Officer of the Company. (11)
32.1	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Steve DeWindt, the Chief Executive Officer of the Company. (11)
32.2	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Michael Vesey, the Vice President and Chief Financial Officer of the Company. (11)
32.3	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Kevin T. Scull, the Vice President and Chief Accounting Officer of the Company. (11)
99.1	Insider Trading Policy. (11)
101	The following financial information from Wayside Technology Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 18, 2019, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Consolidated Balance Sheets, (2) Consolidated Statements of Earnings, (3) Consolidated Statements of Comprehensive Income, (4) Consolidated Statements of Stockholders' Equity, (5) Consolidated Statements of Cash Flows, and (6) the Notes to the Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

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

(11) Furnished herewith.

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

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in Eatontown, New Jersey, on March 18, 2019.

WAYSIDE TECHNOLOGY GROUP, INC.

By: /s/ Steve DeWindt
Steve DeWindt, President and Chief Executive Officer

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

Signature	Title	Date
/s/ Steve DeWindt Steve DeWindt	President, Chief Executive Officer and Director (Principal Executive Officer)	March 18, 2019
/s/ Michael Vesey Michael Vesey	Vice President and Chief Financial Officer (Principal Financial Officer)	March 18, 2019
/s/ Kevin Scull Kevin T. Scull	Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 18, 2019
/s/ Jeffrey Geygan Jeffrey R. Geygan	Chairman of the Board of Directors	March 18, 2019

/s/ Mike Faith	Director	March 18, 2019
Mike Faith		
/s/ Diana Kurty	Director	March 18, 2019
Diana Kurty		

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Items 8 and 15(a)

Wayside Technology Group, Inc. and Subsidiaries

Index to Consolidated Financial Statements and Schedule

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Wayside Technology Group, Inc.

Eatontown, New Jersey

Opinion on the Consolidated Financial Statements

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 18, 2019, expressed an unqualified opinion thereon.

Change in Accounting Principle

On January 1, 2018, the Company adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The effects of the adoption are described in Note 3 to the consolidated financial statements.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

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

/s/ BDO USA, LLP

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

Woodbridge, New Jersey

March 18, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Wayside Technology Group, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Wayside Technology Group, Inc. and Subsidiaries (the "Company") as of December 31, 2017, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the years ended December 31, 2017 and 2016, including the related notes and the financial statement schedule identified in Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017, and the consolidated results of their operations and their cash flows for each of the years ended December 31, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ EisnerAmper LLP

We served as the Company's auditor from 2010 through 2018.

Iselin, New Jersey

March 15, 2018, except for the effects of the retrospective adoption of accounting for revenue recognition as discussed in Note 3 to the consolidated financial statements, as to which the date is March 18, 2019.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Wayside Technology Group, Inc.

Eatontown, New Jersey

Opinion on Internal Control over Financial Reporting

We have audited Wayside Technology Group, Inc. and subsidiaries (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheet of the Company and subsidiaries as of December 31, 2018, the related consolidated statements of earnings and comprehensive income, stockholders' equity, and cash flows for the period ended December 31, 2018, and the related notes and schedule and our report dated March 18, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP

Woodbridge, New Jersey

March 18, 2019

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Wayside Technology Group, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except share and per share amounts)

	December 31, 2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,883	$ 5,530
Accounts receivable, net of allowances of $785 and $862, respectively	81,351	78,177
Inventory, net	1,473	2,794
Vendor prepayments	3,172	6,837
Prepaid expenses and other current assets	1,988	1,718
Total current assets	102,867	95,056
Equipment and leasehold improvements, net	1,588	1,828
Accounts receivable-long-term, net	3,156	7,437
Other assets	215	231
Deferred income taxes	145	138
	$ 107,971	$ 104,690
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 66,653	$ 65,197
Total current liabilities	66,653	65,197
Deferred rent and tenant allowances	745	781
Total liabilities	67,398	65,978
Commitments and contingencies		

Stockholders' equity:		
Common stock, $.01 par value; 10,000,000 shares authorized; 5,284,500 shares issued: 4,496,494 and 4,454,829 shares outstanding, respectively	53	53
Additional paid-in capital	32,392	31,257
Treasury stock, at cost, 788,006 and 829,671 shares, respectively	(13,447)	(14,207)
Retained earnings	22,994	22,522
Accumulated other comprehensive loss	(1,419)	(913)
Total stockholders' equity	40,573	38,712
	$ 107,971	$ 104,690

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

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Wayside Technology Group, Inc. and Subsidiaries

Consolidated Statements of Earnings

(Amounts in thousands, except per share amounts)

	Year ended December 31,		
	2018	2017	2016
Net sales	$ 181,444	$ 160,567	$ 164,609
Cost of sales	154,524	133,491	137,278
Gross profit	26,920	27,076	27,331
Selling, general, and administrative expenses	20,319	19,263	18,715
Separation expenses	2,446	—	—
Income from operations	4,155	7,813	8,616
Other income (expense):			
Interest, net	907	699	318
Foreign currency transaction gains (loss)	55	41	(1)
Income before provision for income taxes	5,117	8,553	8,933
Provision for income taxes	1,579	3,491	3,032
Net income	$ 3,538	$ 5,062	$ 5,901
Income per common share-Basic	$ 0.78	$ 1.13	$ 1.25
Income per common share-Diluted	$ 0.78	$ 1.13	$ 1.25
Weighted average common shares outstanding — Basic	4,358	4,299	4,503
Weighted average common shares outstanding — Diluted	4,358	4,299	4,503
Dividends paid per common share	$ 0.68	$ 0.68	$ 0.68

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

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Wayside Technology Group, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Amounts in thousands)

	Year ended December 31,		
	2018	2017	2016
Net income	$ 3,538	$ 5,062	$ 5,901
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(506)	698	(160)
Other comprehensive (loss) income	(506)	698	(160)
Comprehensive income	$ 3,032	$ 5,760	$ 5,741

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

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Wayside Technology Group, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Amounts in thousands, except share amounts)

	Common Stock		Additional Paid-In	Treasury		Retained	Accumulated Other Comprehensive (Loss)	
	Shares	Amount	Capital	Shares	Amount	Earnings	Income	Total
Balance at January 1, 2016	5,284,500	$ 53	$ 32,540	583,688	$ (10,296)	$ 17,813	$ (1,451)	$ 38,659
Net income	—	—	—	—	—	5,901	—	5,901
Translation adjustment	—	—	—	—	—	—	(160)	(160)
Dividends paid	—	—	—	—	—	(3,199)	—	(3,199)
Share-based compensation expense	—	—	1,673	—	—	—	—	1,673
Tax benefit from share-based compensation	—	—	141	—	—	—	—	141
Restricted stock grants (net of forfeitures)	—	—	(3,671)	(164,085)	3,671	—	—	—
Treasury shares repurchased	—	—	—	309,463	(5,404)	—	—	(5,404)
Balance at December 31, 2016	5,284,500	53	30,683	729,066	(12,029)	20,515	(1,611)	37,611
Net income	—	—	—	—	—	5,062	—	5,062
Translation adjustment	—	—	—	—	—	—	698	698
Dividends paid	—	—	—	—	—	(3,055)	—	(3,055)
	—	—	1,350	—	—	—	—	1,350

Share-based compensation expense								
Restricted stock grants (net of forfeitures)	—	—	(776)	(64,382)	776	—	—	—
Treasury shares repurchased	—	—	—	164,987	(2,954)	—	—	(2,954)
Balance at December 31, 2017	5,284,500	53	31,257	829,671	(14,207)	22,522	(913)	38,712
Net income	—	—	—	—	—	3,538	—	3,538
Translation adjustment	—	—	—	—	—	—	(506)	(506)
Dividends paid	—	—	—	—	—	(3,066)	—	(3,066)
Share-based compensation expense	—	—	2,769	—	—	—	—	2,769
Restricted stock grants (net of forfeitures)	—	—	(1,634)	(115,824)	1,799	—	—	165
Treasury shares repurchased	—	—	—	74,159	(1,039)	—	—	(1,039)
Balance at December 31, 2018	5,284,500	$ 53	$ 32,392	788,006	$ (13,447)	$ 22,994	$ (1,419)	$ 40,573

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

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Wayside Technology Group, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

	Year ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Net income	$ 3,538	$ 5,062	$ 5,901
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	482	477	296
Benefit from doubtful accounts receivable	(75)	(95)	(73)
Deferred income tax (benefit) expense	(7)	278	105
Share-based compensation expense	2,769	1,512	1,673
Loss on disposal of fixed assets	17	—	12
Amortization of discount on accounts receivable	(869)	(747)	(308)
Changes in operating assets and liabilities:			
Accounts receivable	1,538	11,540	(28,348)
Inventory	1,312	(461)	(361)
Prepaid expenses and other current assets	(280)	31	(625)
Vendor prepayments	3,665	(6,837)	—
Accounts payable and accrued expenses	1,841	(12,656)	21,246
Other assets and liabilities	(30)	(125)	(34)
Net cash provided by (used in) operating activities	13,901	(2,021)	(516)
Cash flows used in investing activities			
Purchase of equipment and leasehold improvements	(266)	(359)	(1,040)
Net cash used in investing activities	(266)	(359)	(1,040)
Cash flows used in financing activities			
Purchase of treasury stock	(1,039)	(2,954)	(5,404)
Borrowings under revolving credit facility	10,000	2,000	—
Repayments of borrowings under revolving credit facility	(10,000)	(2,000)	—
Tax benefit from share-based compensation	—	—	141
Dividends paid	(3,066)	(3,055)	(3,199)
Net cash used in financing activities	(4,105)	(6,009)	(8,462)
Effect of foreign exchange rate on cash	(177)	395	(281)
Net increase (decrease) in cash and cash equivalents	9,353	(7,994)	(10,299)
Cash and cash equivalents at beginning of period	5,530	13,524	23,823

Cash and cash equivalents at end of period	$ 14,883	$ 5,530	$ 13,524
Supplementary disclosure of cash flow information:			
Income taxes paid	$ 2,338	$ 2,437	$ 2,559
Leasehold improvements funded by tenant allowance	$ -	$ -	$ 840

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

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Wayside Technology Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Note 1. Description of Business

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

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

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation and Operations

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

Use of Estimates

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

Net Income Per Common Share

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

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

	Year ended December 31, 2018	2017	2016
Numerator:			
Net income	$ 3,538	$ 5,062	$ 5,901
Less distributed and undistributed income allocated to participating securities	118	222	251
Net income attributable to common shareholders	3,420	4,840	5,650
Denominator:			
Weighted average common shares (Basic)	4,358	4,299	4,503
Weighted average common shares including assumed conversions (Diluted)	4,358	4,299	4,503
Basic net income per share	$ 0.78	$ 1.13	$ 1.25
Diluted net income per share	$ 0.78	$ 1.13	$ 1.25

Cash Equivalents

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

Accounts Receivable

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

Allowance for Accounts Receivable

We provide allowances for doubtful accounts related to accounts receivable for estimated losses resulting from the inability of our customers to make required payments. We take into consideration the overall quality and aging of the receivable portfolio along with specifically identified customer risks. If actual customer payment performance were to deteriorate to an extent not expected, additional allowances may be required. At the time of sale, we record an estimate for sales returns based on historical experience. If actual sales returns are greater than estimated by management, additional expense may be incurred.

Foreign Currency Translation

Assets and liabilities of the Company’s foreign subsidiaries have been translated using the end of the reporting period exchange rates, and related revenues and expenses have been translated at average rates of exchange in effect during the period. Cumulative translation adjustments have been classified within accumulated other comprehensive income, which is a separate component of stockholders’ equity in accordance FASB ASC Topic No. 220, “Comprehensive Income”. Foreign currency transaction gains and losses are recorded as income or expenses as amounts are settled.

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Concentration of Credit Risk

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

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

Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value as of December 31, 2018 and 2017, because of the relative short maturity of these instruments. The Company's accounts receivable-long-term is discounted to their present value at prevailing market rates at the time of sale which, approximates fair value as of December 31, 2018 and 2017.

Inventory

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

Vendor Prepayments

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

Equipment and Leasehold Improvements

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

Accounts Receivable-Long-Term

Accounts receivable-long-term result from product sales with extended payment terms that are discounted to their present values at the prevailing market rates at the time of sale. In subsequent periods, the accounts receivable is increased to the amounts due and payable by the customers through the accretion of interest income on the unpaid accounts receivable due in future years. The amounts under these long-term accounts receivable due within one year are reclassified to the current portion of accounts receivable.

Comprehensive Income

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

Revenue Recognition

Effective January 1, 2018, the Company adopted the requirements of Accounting Standards Update, or ASU, No. 2014-09 Revenue from Contracts with Customers, or Accounting Standard Codification (“ASC”) 606 using the full retrospective method, as discussed in detail in Note 3. All amounts and disclosures set forth in this Annual Report on Form 10-K have been updated to comply with ASC 606 as discussed in Note 3.

Stock-Based Compensation

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

Separation Expenses

Separation expenses consist of expenses related to accelerated vesting of restricted stock and other cash payments to be made to the Company's former Chairman of the Board, President and Chief Executive Officer pursuant to a separation agreement dated May 11, 2018.

Interest, net

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

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the current-year presentation, including the reclassification of certain vendor rebates from prepaids expenses and other current assets to accounts payable and accrued expenses and the reclassification of deferred rent and tenant allowances from current liabilities to long-term liabilities. See Note 3 for certain balance sheet reclassifications relating to the Company's adoption of ASC 606.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. In March, April, May and December 2016, the FASB issued additional updates to the new accounting standard which provide supplemental adoption guidance and clarifications. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. The Company adopted the new standard on January 1, 2018, using the full retrospective method which required us to recast our historical financial information to reflect the adoption as of the earliest reporting period presented. The most significant impact of adopting the standard relates to the determination of whether the Company is acting as a principal or an agent in the sale of third-party security software and software that is highly interdependent with support, as well as maintenance, support or other services. See Note 3 (Revenue Recognition).

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance under FASB ASC Topic 840, Leases, resulting in the creation of FASB ASC Topic 842, Leases. ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term from operating leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors were originally required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, FASB issued ASU No. 2018-11, Targeted Improvements. This update still requires modified retrospective transition; however, it adds the option to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment in the current period instead of at the beginning of the earliest period presented. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company expects to elect to adopt the new accounting standard using the modified retrospective transition option. The Company is in the process of finalizing its evaluation of current leases and quantifying the impact to its balance sheet. The Company expects to recognize right of use assets and leases liabilities between \$2.5 million and \$3.5 million as of January 1, 2019. The Company does not expect the adoption of this standard to have a material impact on the Company's Consolidated Statements of Earnings.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("ASU No. 2016-13"). ASU No. 2016-13 revises the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU No. 2016-13 is effective for the Company in the first quarter of 2020, with early adoption permitted, and is to be applied using a modified retrospective approach. The Company is currently evaluating the potential effects of adopting the provisions of ASU No. 2016-13 on its Consolidated Financial Statements, particularly its recognition of allowances for accounts receivable.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows ("ASU 2016-15") which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. The new standard became effective for the Company beginning with the first quarter of 2018. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issued ASU No. 2017-09, "Scope of Modification Accounting", to reduce diversity in practice and provide clarity regarding existing guidance in ASC 718, "Stock Compensation". The amendments in this updated guidance clarify that an entity should apply modification accounting in response to a change in the terms and conditions of an entity's share-based payment awards unless three newly specified criteria are met. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The new guidance was effective for the Company on a prospective basis beginning on January 1, 2018 and did not impact the Company's Consolidated Financial Statements as it is not the Company's practice to change either the terms or conditions of stock-based payment awards once they are granted.

In February 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” (“ASU 2018-02”), which permits the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act (the “TCJA” or “U.S. tax reform”) from Accumulated other comprehensive income (loss) to Retained earnings. This new guidance is effective for the Company beginning on January 1, 2019 and must be applied either in the period of adoption or retrospectively to periods in which the effects of the TCJA are recognized. The adoption of this guidance is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In March 2018, the FASB issued ASU 2018-05, “Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update), Income Taxes (Topic 740)” (“ASU-2018-05”). ASU 2018-05 provides guidance regarding the recording of tax impacts where uncertainty exists, in the period of adoption of the TCJA, which allowed companies to reflect provisional amounts for those specific income tax effects of the TCJA for which the accounting under ASC Topic 740 is incomplete but for which a reasonable estimate could be determined. The Company completed its Federal and State income tax filings for 2017 with no material change to amounts previously reported.

In June 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-07, "Compensation — Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07"), which aligns the measurement and classification guidance for share-based payments to nonemployees with that for employees, with certain exceptions. It expands the scope of ASC 718 to include share-based payments granted to nonemployees in exchange for goods or services used or consumed in the entity's own operations and supersedes the guidance in ASC 505-50. The ASU retains the existing cost attribution guidance, which requires entities to recognize compensation cost for nonemployee awards in the same period and in the same manner (i.e., capitalize or expense) they would if they paid cash for the goods or services, but it moves the guidance to ASC 718. The guidance also allows nonpublic entities to account for nonemployee awards using certain practical expedients that are already available for employee awards, but the same accounting policies must be used for awards to both employees and nonemployees. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting this guidance.

In July 2018, the FASB issued ASU 2018-09 – Codification Improvements ("ASU 2018-09"), which facilitates amendments to a variety of topics to clarify, correct errors in, or make minor improvements to the accounting standards codification. The effective date of the standard is dependent on the facts and circumstances of each amendment. Some amendments do not require transition guidance and will be effective upon the issuance of this standard. Most of the amendments in ASU 2018-09 will be effective in annual periods beginning after December 15, 2018. This new guidance is effective for the Company beginning on January 1, 2019 and is not expected to have a material impact on the Company's Consolidated Financial Statements and related disclosures.

3. Revenue Recognition

Effective January 1, 2018, we adopted ASC 606 using the full retrospective method, which requires us to recast our historical financial information to reflect the adoption as of the earliest reporting period presented. There was no adjustment to equity as a result of the adoption. The most significant impact of adopting the standard relates to the determination of whether the Company is acting as a principal or an agent in the sale of third-party security software and software that is highly interdependent with support, as well as maintenance, support and other services. Historically, under the transfer of risk and rewards model of revenue recognition, the Company has accounted for primarily all its sales on a gross basis. The new guidance requires the Company to identify performance obligations and assess transfer of control. While assessing its performance obligations for sales of security software and software subscriptions that are highly interdependent with support, the Company determined that the vendor has ongoing performance obligations with the end customer that are not separately identifiable from the software itself. The Company also determined that the vendor has ongoing performance obligation for sales of certain third-party maintenance, support and service contracts. In these instances, the Company has determined that it does not have control and is acting as an agent in the sale. When acting as an agent in a transaction, the Company accounts for sales on a net basis, with the vendor cost associated with the sale recognized as a reduction of revenue.

The Company also changed its presentation of its accrual for returns and recognized this as a refund liability within the accounts payable and accrued expense line of the balance sheet. The amount previously had been recorded as a reduction of accounts receivable. Additionally, the asset for the right to recover from customers settling the refund liability is presented separately from the refund liability. This amount had previously been recorded as a reduction of accounts payable and accrued expenses. As a result, in our consolidated balance sheets, we reclassified our sales return allowance from accounts receivable, net of allowances to accounts payable and accrued expenses and reclassified the relating asset for the right to recover from customers settling the refund liability from accounts payable and accrued expenses to prepaid expenses and other current assets.

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ASC 606 Adoption Impact to Previously Reported Results

The tables below present historical information adjusted as if the standard had been adopted on January 1, 2016 for all periods presented. The effect of these changes for each quarter of 2017 is presented in Note 11.

	Year ended December 31, 2017			Year ended December 31, 2016		
	As Reported	Impact of Adoption	As Adjusted	As Reported	Impact of Adoption	As Adjusted
Net sales	$ 449,379	$ (288,812)	$ 160,567	$ 418,131	$ (253,522)	$ 164,609
Cost of sales	422,303	(288,812)	133,491	390,800	(253,522)	137,278
Gross profit	$ 27,076	$ —	$ 27,076	$ 27,331	$ —	$ 27,331

The following table presents the effect from the adoption of ASC 606 on the consolidated balance sheet.

	As of December 31, 2017		
	As Reported	Impact of Adoption	As Adjusted
Assets:			
Accounts receivable, net of allowances	$ 76,937	$ 1,240	$ 78,177
Prepaid expenses and other current assets	$ 553	$ 1,165	$ 1,718
Liabilities:			
Accounts payable and accrued expenses	$ 62,792	$ 2,405	$ 65,197

There is no impact to stockholders' equity from the adoption of ASC 606.

The core principle of ASC 606 is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. This principle is achieved through applying the following five-step approach:

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

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

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

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

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

Disaggregation of Revenue

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

Net sales:	Year ended December 31,		
	2018	2017	2016
Hardware, software and other products	$ 164,870	$ 143,920	$ 148,949
Software - security & highly interdependent with support	6,527	5,939	4,916
Maintenance, support & other services	10,047	10,708	10,744
Net sales	$ 181,444	$ 160,567	$ 164,609

See Note 10 for disaggregation of revenue by segment and geography.

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

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

Software maintenance and support, commonly known as software assurance or post contract support, consists of software updates and technical support provided by the software vendor to the licensor over a period. In cases where

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

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

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

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

Contract balances - Accounts receivable is recorded at the invoiced amount, net of an allowance for doubtful accounts. A receivable is recognized in the period we deliver goods or provide services or when our right to consideration is unconditional. Payment terms on invoiced amounts are typically 30-75 days. The balance of accounts receivable, net of allowance for doubtful accounts as of December 31, 2018 and 2017 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

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specified good or service. Generally, we conclude that we are a principal in transactions where software or hardware products containing their core functionality are delivered to the customer at the time of sale and are agents in transactions where we are arranging for the provision of future performance obligations by a third party. As we enter into distribution agreements with third-party service providers, we evaluate whether we are acting as a principal or agent for each product sold under the agreement based on the nature of the product or service, and our performance obligations. Products for which there are significant ongoing third-party performance obligations include software maintenance, which includes periodic software updates and support, security software that is highly interdependent with maintenance, software as a service, cloud and third-party professional services. Sales of hardware, software and other products where we are a principal are recorded on a gross basis with the selling price to the customer recorded as sales and the cost of the product or software recorded as cost of sales. Sales where we are acting as an agent are recognized on a net basis at the date our performance obligations are complete. Under net revenue recognition, the cost paid to the vendor or third-party service provider is recorded as a reduction to sales, resulting in revenue being equal to the gross profit on the transaction.

4. Balance Sheet Detail

Equipment and leasehold improvements, net consist of the following as of December 31:

	2018	2017
Equipment	$ 2,146	$ 1,988
Leasehold improvements	1,332	1,335
	3,478	3,323
Less accumulated depreciation and amortization	(1,890)	(1,495)
	$ 1,588	$ 1,828

Depreciation expense relating to equipment and leasehold improvements, net was $473 thousand, $470 thousand and $292 thousand during the years ended December 31, 2018, 2017 and 2016, respectively.

Accounts receivable – long term, net consist of the following as of December 31:

	2018	2017
Total amount due from customer	$ 11,169	$ 20,886
Less unamortized discount	(391)	(912)
Less current portion included in accounts receivable	(7,622)	(12,537)
	$ 3,156	$ 7,437

Accounts payable and accrued expenses consist of the following as of December 31:

	2018	2017
Trade accounts payable	$ 62,751	$ 60,075
Accrued expenses	3,902	5,122
	$ 66,653	$ 65,197

Accumulated other comprehensive loss consists of the following as of December 31:

	2018	2017
Foreign currency translation adjustments	$ (1,419)	$ (913)
	$ (1,419)	$ (913)

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5. Income Taxes

Deferred tax attributes resulting from differences between the tax basis of assets and liabilities and the reported amounts in the consolidated balance sheet at December 31, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets:		
Accruals and reserves	$ 331	$ 331
Deferred rent credit	151	161
Total deferred tax assets	482	492
Deferred tax liabilities:		
Depreciation and amortization	(337)	(354)
Total deferred tax liabilities	(337)	(354)
Net deferred tax asset	$ 145	$ 138

The provision for income taxes is as follows:

	Year ended December 31,		
	2018	2017	2016
Current:			
Federal	$ 967	$ 2,253	$ 2,515
State	327	552	55
Foreign	292	408	357
	1,586	3,213	2,927
Deferred:			
Federal	(11)	273	102
State	4	5	3
	(7)	278	105
	$ 1,579	$ 3,491	$ 3,032
Effective Tax Rate	30.9 %	40.8 %	33.9 %

The Company’s effective tax rate for the year ended December 31, 2018 was impacted by limitations on the deductibility of executive compensation resulting from Section 162(m) of the Internal Revenue Code and adjustments to the accrual for state income taxes in states which have enacted economic nexus statutes. The Company recorded a $0.4 million tax benefit related to separation expenses during the year ended December 31, 2018, which were accounted for as a discrete item, resulting in a 19.4% effective tax benefit rate on that item. The Company also recorded an adjustment to its accrual for potential liabilities for state income taxes in states which have enacted economic nexus statutes of $0.2

million during the year ended December 31, 2018. The effective tax rate for ordinary income was 25.1% for the year ended December 31, 2018.

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

	Year ended December 31,		
	2018	2017	2016
Statutory rate applied to pretax income	$ 1,075	$ 2,908	$ 3,037
Section 162(m) and other permanent items	203	—	—
Potential state tax obligations, net of federal tax benefit	158	375	—
State income taxes, net of federal income tax benefit	99	36	36
Impact of new tax law	—	189	—
Foreign income taxes over (under) U.S. statutory rate	50	(70)	(64)
Other items	(6)	53	23
Income tax expense	$ 1,579	$ 3,491	$ 3,032

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

The Company has analyzed filing positions in all the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company has identified its federal consolidated tax return, its state tax return in New Jersey and its Canadian tax return as major tax jurisdictions. As of December 31, 2018, the Company’s 2016 and 2017 Federal tax returns remain open for examination, as the Company recently concluded an Internal Revenue Service examination through the 2015 tax year. This examination resulted in no change to the previously filed Federal corporate tax returns. The Company’s New Jersey and Canadian tax returns are open for examination for the years 2014 through 2017. As of December 31, 2018, the Company recorded an accrual of $0.6 million, net of federal tax benefit, for potential liabilities for state income taxes in states which have enacted economic nexus statutes and the Company has not filed income tax returns. The Company’s policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including experience and interpretations of tax law applied to the facts of each matter.

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

	Year ended December 31,		
	2018	2017	2016
United States	$ 3,960	$ 6,929	$ 7,514
Foreign	1,157	1,624	1,419
	$ 5,117	$ 8,553	$ 8,933

The TCJA was enacted on December 22, 2017 and introduced significant changes to the U.S. income tax law. Effective in 2018, the TCJA reduced U.S. statutory tax rates from 34% to 21%. Accordingly, we remeasured our deferred taxes as of December 31, 2017 to reflect the reduced rate that will apply in future periods when these deferred taxes are settled or realized, resulting in a one-time $0.1 million net tax expense in 2017.

Due to the timing of the enactment and the complexity involved in applying the provisions of the TCJA, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of

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December 31, 2017. The Company completed our Federal and State income tax filings for 2017 with no material changes to amounts previously reported.

The following table summarizes the activity related to the Company's unrecognized tax benefits as of December 31, 2018 and 2017:

	2018	2017
Balance as of January 1	$ 443	$ -
Additions related to prior period tax positions	200	443
Reductions related to settlements with tax authorities	(102)	-
Balance as of December 31	$ 541	$ 443

All of the unrecognized income tax benefits at December 31, 2018 and 2017 would have affected the Company's effective income tax rate if recognized. The Company believes that it is reasonably possible that a significant decrease in the total amount of unrecognized income tax benefits related to state exposures may be necessary within the next twelve months.

During the year ended December 31, 2018, the Company incurred interest and penalties of less than $0.1 million related to these uncertain tax benefits. During the years ended December 31, 2017 and 2016, there were no amounts incurred for interest and penalties related to these uncertain tax benefits.

6. Credit Facility

On November 15, 2017, the Company entered into a $20,000,000 revolving credit facility (the "Credit Facility") with Citibank, N.A. ("Citibank") pursuant to a Second Amended and Restated Revolving Credit Loan Agreement (the "Loan Agreement"), Second Amended and Restated Revolving Credit Loan Note (the "Note"), Second Amended and Restated Security Agreement (the "Security Agreement") and Second Amended and Restated Pledge and Security Agreement (the "Pledge Agreement"). The Credit Facility, which will be used for working capital and general corporate purposes, matures on August 31, 2020, at which time the Company must pay all outstanding principal of all outstanding loans plus all accrued and unpaid interest, and any, fees, costs and expenses. In addition, the Company will pay regular monthly payments of all accrued and unpaid interest. The interest rate for any borrowings under the Credit Facility is subject to change from time to time based on the changes in the LIBOR Rate, as defined in the Loan Agreement (the "Index"). The Index was 2.39% at December 31, 2018. Interest on the unpaid principal balance of the Note will be calculated using a rate of 1.50 percentage points over the Index. If the Index becomes unavailable during the term of the Credit Facility, interest will be based upon the Prime Rate (as defined in the Loan Agreement) after notifying the

Company. The Credit Facility is secured by the assets of the Company.

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

At December 31, 2018 and 2017, the Company had no borrowings outstanding under the Credit Facility. The Company incurred $0.1 million and $0.1 million of interest expense, related to the Credit Facility during the years ended December 31, 2018 and 2017, respectively, and no interest expense for the year ended December 31, 2016.

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7. Stockholders’ Equity and Stock-Based Compensation

At the annual stockholder’s meeting held on June 6, 2012, the Company’s stockholders approved the 2012 Stock-Based Compensation Plan (the “2012 Plan”). The 2012 Plan authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The total number of shares of Common Stock initially available for award under the 2012 Plan was 600,000, which was increased to 1,000,000 shares by shareholder approval at the Company’s 2018 Annual Meeting in June 2018. As of December 31, 2018, the number of shares of Common Stock available for future award grants to employees, officers and directors under the 2012 Plan is 530,022.

During 2017, the Company granted a total of 87,076 shares of Restricted Stock to officers and employees. These shares of Restricted Stock vest between twelve and twenty equal quarterly installments. In 2017, a total of 22,694 shares of Restricted Stock were forfeited as a result of directors and employees terminating employment with the Company.

During 2018, the Company granted a total of 123,000 shares of Restricted Stock to officers, directors and employees. These shares of Restricted Stock vest between immediate vesting and twenty equal quarterly installments. In 2018, a total of 7,176 shares of Restricted Stock were forfeited as a result of directors and employees terminating employment with the Company.

During 2018, the Board of Directors approved certain Restricted Stock awards to officers of the Company, whereby the underlying number of shares to be issued are dependent on the Company meeting certain performance targets during the year. Subsequent to December 31, 2018, the Company issued 20,405 shares of Restricted Stock at a grant date fair value of $12.80 to satisfy these awards, which vests over sixteen quarterly installments.

There was no options activity during the year ended December 31, 2018 and 2017 and there were no options outstanding or exercisable at December 31, 2018 and 2017, respectively, under the Company’s 2012 Plan.

Under the various plans, options that are cancelled can be reissued. At December 31, 2018, no cancelled options were reserved for future reissuance.

A summary of nonvested shares of Restricted Stock awards outstanding under the Company’s 2012 Plan as of December 31, 2018, and 2017 and changes during the years ended December 31, 2018 and 2017 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2017	186,081	$ 16.48
Granted in 2017	87,076	18.25
Vested in 2017	(88,645)	16.56
Forfeited in 2017	(22,694)	10.87
Nonvested shares at December 31, 2017	161,818	$ 17.26
Granted in 2018	123,000	14.97
Vested in 2018	(180,898)	16.62
Forfeited in 2018	(7,176)	15.44
Nonvested shares at December 31, 2018	96,744	$ 15.67

As of December 31, 2018, there was approximately $1.4 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 3.0 years.

For the years ended December 31, 2018, 2017 and 2016, the Company recognized share-based compensation cost of approximately $2.8 million, $1.5 million and $1.7 million, respectively. During the year ended

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December 31, 2018, $1.7 million of stock compensation expense related to the accelerated vesting of shares upon resignation of the Company former Chief Executive Officer, was included in separation expense. All other share-based compensation is included in selling, general and administrative expenses. The Company does not capitalize any share-based compensation cost.

8. Defined Contribution Plan

The Company maintains a defined contribution plan covering substantially all domestic employees. Participating employees may make contributions to the plan, through payroll deductions. Matching contributions are made by the Company equal to 50% of the employee’s contribution to the extent such employee contribution did not exceed 6% of their compensation. During the years ended December 31, 2018, 2017 and 2016, the Company expensed approximately $264 thousand, $237 thousand and $211 thousand, respectively, related to this plan.

9. Commitments and Contingencies

Leases

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

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

Rent expense for the years ended December 31, 2018, 2017 and 2016 was approximately $496 thousand, $509 thousand and $455 thousand, respectively.

Employment Agreements

The Company has entered into employment agreements with its President and Chief Executive Officer, Executive Vice President, Vice President and Chief Information Officer, Vice President New Business Development, Vice President and Chief Financial Officer, and Vice President and Chief Accounting Officer

In the event that the Company's, President and Chief Executive Officer, employment is terminated for any reason other than for cause, he is entitled to receive severance payments equal to twelve months at the then applicable annual base salary. Additionally, if during the term of his employment and on or within twelve months following a change of control his employment terminates, he is entitled to receive severance payments equal to twenty-four months at the then applicable annual base salary and actual incentive bonus earned in the year prior paid over a twelve-month period.

The Company's Executive Vice President, Vice President and Chief Information Officer, Vice President New Business Development, Vice President and Chief Financial Officer, and Vice President and Chief Accounting Officer are entitled to a severance payment and severance payments, respectively for six months at the then applicable annual base salary if the Company terminates their respective employment for any reason other than for cause.

The Executive Vice President and Vice President New Business Development are also entitled to receive continuation of certain employee benefits and their outstanding equity awards become immediately vested if the Company terminates their respective employment for any reason other than for cause.

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Additionally, in the event that a change of control of the Company occurs (as described in the employment agreement), the Chief Financial Officer's outstanding equity awards become immediately vested and he is entitled to receive a lump-sum payment equal to 1.0 times his then annual salary and actual incentive bonus earned in the year prior to such change in control.

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

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

Other

As of December 31, 2018, the Company has no standby letters of credit, has no standby repurchase obligations or other commercial commitments. The Company has a line of credit see Note 6 (Credit Facility). Other than employment arrangements and other management compensation arrangements, the Company is not engaged in any transactions with related parties.

10. Industry, Segment and Geographic Financial Information

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

Geographic revenue and identifiable assets related to operations as of and for the years ended December 31, 2018, 2017 and 2016 were as follows. Revenue is allocated to a geographic area based on the location of the sale, which is generally the customer’s country of domicile. No one country other than the USA represents more than 10% of net sales for 2018, 2017 or 2016.

	2018	2017	2016
Net sales to Unaffiliated Customers:			
USA	$ 159,275	$ 137,185	$ 141,571
Canada	12,036	11,835	12,694
Rest of the world	10,133	11,547	10,344
Total	$ 181,444	$ 160,567	$ 164,609

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	2018	2017	2016
Identifiable Assets by Geographic Areas at December 31,			
USA and Rest of the world	$ 100,681	$ 97,481	$ 108,568
Canada	7,290	7,209	7,684
Total	$ 107,971	$ 104,690	$ 116,252

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

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

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

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

	Year ended December 31,		
	2018	2017	2016
Revenue:			
Lifeboat Distribution	$ 163,564	$ 141,708	$ 137,113
TechXtend	17,880	18,859	27,496
	181,444	160,567	164,609
Gross Profit:			
Lifeboat Distribution	$ 23,441	$ 23,183	$ 22,349

TechXtend	3,479	3,893	4,982
	26,920	27,076	27,331
Direct Costs:			
Lifeboat Distribution	$ 8,920	$ 7,952	$ 7,478
TechXtend	1,707	1,879	2,098
	10,627	9,831	9,576
Segment Income Before Taxes: (1)			
Lifeboat Distribution	$ 14,521	$ 15,231	$ 14,871
TechXtend	1,772	2,014	2,884
Segment Income Before Taxes	16,293	17,245	17,755
General and administrative	$ 9,692	$ 9,432	$ 9,139
Separation expenses	2,446	—	—
Interest, net	907	699	318
Foreign currency transaction gains (loss)	55	41	(1)
Income before taxes	$ 5,117	$ 8,553	$ 8,933

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

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The following table presents historical information by segment adjusted as if the standard had been adopted on January 1, 2016 for all periods presented.

	Year ended December 31, 2017			Year ended December 31, 2016		
	As Reported	Impact of Adoption	As Adjusted	As Reported	Impact of Adoption	As Adjusted
Lifeboat Distribution Segment:						
Net sales	$ 417,427	$ (275,719)	$ 141,708	$ 369,519	$ (232,406)	$ 137,113
Cost of sales	394,244	(275,719)	118,525	347,170	(232,406)	114,764
Gross profit	$ 23,183	$ —	$ 23,183	$ 22,349	$ —	$ 22,349
TechXtend Segment:						
Net sales	$ 31,952	$ (13,093)	$ 18,859	$ 48,612	$ (21,116)	$ 27,496
Cost of sales	28,059	(13,093)	14,966	43,630	(21,116)	22,514
Gross profit	$ 3,893	$ —	$ 3,893	$ 4,982	$ —	$ 4,982

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Selected Assets by Segment:	December 31, 2018	2017
Lifeboat Distribution	$ 77,610	$ 73,794
TechXtend	11,542	21,451
Segment Select Assets	89,152	95,245
Corporate Assets	18,819	9,445
Total Assets	$ 107,971	$ 104,690

Disaggregation of revenue:	Year ended December 31, 2018	2017	2016
Lifeboat Distribution			
Hardware, software and other products	$ 148,570	$ 126,738	$ 124,377
Software - security & highly interdependent with support	6,087	5,465	4,338
Maintenance, support & other services	8,907	9,505	8,398
Net Sales	$ 163,564	$ 141,708	$ 137,113
TechXtend			
Hardware, software and other products	$ 16,300	$ 17,182	$ 24,572
Software - security & highly interdependent with support	440	474	578
Maintenance, support & other services	1,140	1,203	2,346
Net Sales	$ 17,880	$ 18,859	$ 27,496

The Company had two customers that each accounted for more than 10% of total consolidated net sales for 2018. For the year ended December 31, 2018, CDW Corporation (“CDW”) and Software House International Corporation (“SHI”), accounted for 25.6%, and 16.6%, respectively, of consolidated net sales and as of December 31, 2018, 35.6% and 15.0%, respectively, of total net accounts receivable. For the year ended December 31, 2018, Sophos and SolarWinds accounted for 23.9% and 15.3%, respectively of our consolidated purchases.

For the year ended December 31, 2017, CDW and SHI accounted for 18.0%, and 20.1%, respectively, of consolidated net sales and as of December 31, 2017, 28.2%, and 14.9%, respectively, of total net accounts receivable. For the year ended December 31, 2017, Sophos and SolarWinds accounted for 26.4% and 14.7%, respectively of our consolidated purchases.

For the year ended December 31, 2016, CDW and SHI accounted for 17.3%, and 16.3%, respectively, of consolidated net sales. For the year ended December 31, 2016, Sophos and SolarWinds accounted for 23.1% and 10.8%, respectively of our consolidated purchases.

Our top five customers accounted for 55%, 50%, and 46% of consolidated net sales in 2018, 2017 and 2016, respectively.

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11. Quarterly Results of Operations (Unaudited)

The following table presents summarized quarterly results for 2018:

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

The following table presents summarized quarterly results for 2017 (adjusted):

	First	Second	Third	Fourth
Net sales	$ 38,091	$ 39,021	$ 39,018	$ 44,437
Gross profit	6,758	6,572	6,244	7,502
Net income	1,319	1,273	1,341	1,128
Basic net income per common share	$ 0.29	$ 0.28	$ 0.30	$ 0.25
Diluted net income per common share	$ 0.29	$ 0.28	$ 0.30	$ 0.25

The following tables presents the effect of the adoption of ASC 606 on net sales (see Note 3) for each quarter of 2017:

	As Reported	Impact of Adoption	As Adjusted
First	$ 112,795	$ (74,704)	$ 38,091
Second	102,982	(63,961)	39,021
Third	106,646	(67,628)	39,018
Fourth	126,956	(82,519)	44,437
Total net sales	$ 449,379	$ (288,812)	$ 160,567

During the fourth quarter of 2018, the Company determined certain balances related to customer return liabilities should be reclassified between current assets and liabilities in accordance with ASC 606. The adjustments had no impact on net equity and was determined to not have a material impact on previously presented financial statements. However, the Company will present its previously issued financial statements on a restated basis in future comparative presentations in order to be consistent with the current period presentation. The following tables present certain balance sheet reclassification adjustments relating to the adoption of ASC 606 on previously presented quarters of 2018:

	As of September 30, 2018		
	As Reported	Impact of Adoption	As Adjusted
Assets:			
Accounts receivable, net of allowances	$ 83,762	$ 1,600	$ 85,362
Prepaid expenses and other current assets	$ 525	$ 1,504	$ 2,029
Liabilities:			
Accounts payable and accrued expenses	$ 62,675	$ 3,104	$ 65,779

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	As of June 30, 2018		
	As Reported	Impact of Adoption	As Adjusted
Assets:			
Accounts receivable, net of allowances	$ 71,780	$ 1,123	$ 72,903
Prepaid expenses and other current assets	$ 572	$ 1,055	$ 1,627
Liabilities:			
Accounts payable and accrued expenses	$ 57,765	$ 2,178	$ 59,943

	As of March 31, 2018		
	As Reported	Impact of Adoption	As Adjusted
Assets:			
Accounts receivable, net of allowances	$ 82,019	$ 1,324	$ 83,343
Prepaid expenses and other current assets	$ 611	$ 1,245	$ 1,856
Liabilities:			
Accounts payable and accrued expenses	$ 67,931	$ 2,569	$ 70,500

12. Separation Charges

The Company recorded expenses of $2.4 million during the year ended December 31, 2018 related to the Separation Agreement consisting of $1.7 million for accelerated vesting of restricted stock grants and $0.8 million in other cash payments to be made over during the next twelve months. The compensation is subject to certain limitations on deductibility for income tax purposes under Section 162(m) of the Internal Revenue Code (see Note 5).

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Wayside Technology Group, Inc. and Subsidiaries

Schedule II--Valuation and Qualifying Accounts

(Amounts in thousands)

Description	Beginning Balance	Charged to Cost and Expense	Deductions	Ending Balance
Year ended December 31, 2016				
Allowances for accounts receivable	$ 1,060	$ (73)	$ 17	$ 970
Reserve for inventory obsolescence	$ 16	$ 3	$ 4	$ 15
Year ended December 31, 2017				
Allowances for accounts receivable	$ 970	$ (95)	$ 13	$ 862
Reserve for inventory obsolescence	$ 15	$ —	$ 3	$ 12
Year ended December 31, 2018				
Allowances for accounts receivable	$ 862	$ (75)	$ 2	$ 785
Reserve for inventory obsolescence	$ 12	$ —	$ 4	$ 8