MARINUS PHARMACEUTICALS INC
Form 10-Q
August 01, 2017
Table of Contents

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

OR

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

COMMISSION FILE NUMBER 001-36576

MARINUS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	20-0198082
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

170 N. Radnor Chester Rd, Suite 250

Radnor, PA 19087

(Address of registrant's principal executive offices)

Registrant's telephone number, including area code: (484) 801-4670

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No.

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No.

The number of outstanding shares of the registrant's common stock, par value $0.001 per share, as of July 27, 2017 was: 26,075,491.

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

INDEX TO FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2017

PART I – FINANCIAL INFORMATION

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,531	$ 26,178
Short-term investments	744	3,922
Prepaid expenses and other current assets	684	199
Total current assets	20,959	30,299
Property and equipment, net	1,136	1,148
Total assets	$ 22,095	$ 31,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of notes payable	$ 3,497	$ 3,500
Accounts payable	1,161	2,809
Accrued expenses	1,016	1,775
Total current liabilities	5,674	8,084
Notes payable	—	1,743
Other long-term liabilities	132	141
Total liabilities	5,806	9,968
Stockholders' equity:		
Preferred stock, $0.001 par value; 25,000,000 shares authorized, no shares issued and outstanding	—	—

Common stock, $0.001 par value; 100,000,000 shares authorized, 22,448,735 issued and 22,419,504 outstanding at June 30, 2017 and 19,734,351 issued and 19,705,120 outstanding at December 31, 2016	23	20
Additional paid-in capital	152,085	147,288
Treasury stock at cost, 29,231 shares at June 30, 2017 and December 31, 2016	—	—
Accumulated deficit	(135,819)	(125,829)
Total stockholders' equity	16,289	21,479
Total liabilities and stockholders' equity	$ 22,095	$ 31,447

See accompanying notes to consolidated financial statements.

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Expenses:				
Research and development	$ 2,817	$ 7,258	$ 6,390	$ 12,752
General and administrative	1,691	1,586	3,503	3,190
Loss from operations	(4,508)	(8,844)	(9,893)	(15,942)
Interest income	31	34	71	56
Interest expense	(72)	(124)	(156)	(248)
Other expense	(3)	(15)	(12)	(31)
Net loss	$ (4,552)	$ (8,949)	$ (9,990)	$ (16,165)
Per share information:				
Net loss per share of common stock—basic and diluted	$ (0.21)	$ (0.46)	$ (0.47)	$ (0.83)
Basic and diluted weighted average shares outstanding	21,985,213	19,509,220	21,288,545	19,486,944

See accompanying notes to consolidated financial statements.

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net loss	$ (9,990)	$ (16,165)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	22	9
Stock-based compensation expense	1,519	1,476
Amortization of debt issuance costs	4	4
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(484)	1,186
Accounts payable and accrued expenses	(2,284)	1,228
Net cash used in operating activities	(11,213)	(12,262)
Cash flows from investing activities		
Purchases of investments	—	(2,434)
Maturities of short-term investments	3,178	2,735
Purchases of property and equipment	(143)	(406)
Net cash provided by (used in) investing activities	3,035	(105)
Cash flows from financing activities		
Proceeds from exercise of stock options	—	123
Proceeds from equity offerings, net of offering costs	3,281	(167)
Principal payments of notes payable	(1,750)	(209)
Net cash provided by (used in) financing activities	1,531	(253)
Net decrease in cash and cash equivalents	(6,647)	(12,620)
Cash and cash equivalents—beginning of period	26,178	51,722
Cash and cash equivalents—end of period	$ 19,531	$ 39,102
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 162	$ 243
Payment on notes payable in accounts payable	$ —	$ 43
Property and equipment in accounts payable	$ —	$ 227

See accompanying notes to consolidated financial statements.

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of the Business and Liquidity

We are a clinical stage biopharmaceutical company focused on developing and commercializing innovative therapeutics to treat epilepsy and neuropsychiatric disorders. Our clinical stage product candidate, ganaxolone, is a positive allosteric modulator of the $GABA_A$ receptor being developed in three different dose forms (intravenous, oral capsule and oral liquid) intended to maximize therapeutic reach to adult and pediatric patient populations in both acute and chronic care settings and in both in-patient and self-administered settings. The $GABA_A$ receptor is a well characterized target in the brain known for both anti seizure, anti-depression and anti anxiety effects. Our primary focus to date has been directed towards developing business strategies, conducting research and development activities, and conducting preclinical testing and human clinical trials for our product candidate.

Liquidity

We have not generated any product revenues and have incurred operating losses since inception. There is no assurance that profitable operations will ever be achieved, and if achieved, could be sustained on a continuing basis. In addition, development activities, clinical and preclinical testing, and commercialization of our product candidates will require significant additional financing. Our accumulated deficit as of June 30, 2017 was $135.8 million and we expect to incur substantial losses in future periods. We plan to finance our future operations with a combination of proceeds from the issuance of equity securities, the issuance of additional debt, potential collaborations and revenues from potential future product sales, if any. We have not generated positive cash flows from operations, and there are no assurances that we will be successful in obtaining an adequate level of financing for the development and commercialization of our planned product candidates. We believe that our cash, cash equivalents and investment balance as of June 30, 2017, including net proceeds received in July 2017 purusant to our Equity Distribution Agreement (see Note 8), is adequate to fund our operations into the fourth quarter of 2018.

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited interim consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all information and disclosures necessary for a presentation of our financial position, results of operations and cash flows in conformity with generally accepted accounting principles in the United States of America (GAAP) for annual financial statements. In the opinion of management, these unaudited interim consolidated financial statements reflect the elimination of all intercompany accounts and transactions and all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation of our financial position and results of operations and cash flows for the periods presented. The results of operations for interim periods are not necessarily indicative of the results for the full year. These unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2016 and accompanying notes thereto included in our annual report on Form 10-K filed with the SEC on March 13, 2017.

Use of Estimates

The preparation of financial statements in conformity with GAAP, requires management to make estimates and assumptions that 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 income and expenses during the reporting period. Actual results could differ from such estimates.

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Investments

Investments purchased with a maturity of more than three months and less than twelve months are classified as short-term investments. Investments purchased with a remaining maturity greater than twelve months are classified as long-term investments. We plan to hold these investments to maturity and have classified these investments as such as defined by GAAP. As of June 30, 2017, all of our investments were classified as short-term on our consolidated balance sheet.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases, which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We have not evaluated the impact of the updated guidance on our interim or annual consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, which amends the guidance in Accounting Standards Codification (ASC) 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The guidance in the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We do not expect the adoption of this ASU to have a material effect on our interim or annual consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. For all entities, the ASU is effective for annual reporting periods, including interim periods within those annual reporting

periods, beginning after December 15, 2017, with early adoption permitted. We do not expect the adoption of this ASU to have a material effect on our interim or annual consolifated financial statements.

3. Fair Value Measurements

FASB accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. In determining fair value, we use quoted prices and observable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources.

The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

· Level 1 — Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.

· Level 2 — Valuations based on observable inputs and quoted prices in active markets for similar assets and liabilities.

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

· Level 3 — Valuations based on inputs that are unobservable and models that are significant to the overall fair value measurement.

The following fair value hierarchy table presents information about each major category of our financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2017				
Assets				
Money market funds (cash equivalents)	$ 19,427	$ —	$ —	$ 19,427
Certificates of deposit	744	—	—	744
December 31, 2016				
Assets				
Money market funds (cash equivalents)	$ 25,629	$ —	$ —	$ 25,629
Certificates of deposit	3,922	—	—	3,922

4. Accrued Expenses

At June 30, 2017 and December 31, 2016 accrued expenses consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Payroll and related costs	$ 718	$ 880
Clinical trials and drug development	39	681
Professional fees	206	101
Other	53	113
Total accrued expenses	$ 1,016	$ 1,775

5. Notes Payable

In 2014, we borrowed an aggregate of $7.0 million in connection with a Loan and Security Agreement, as amended (LSA). Through June 30, 2017 and pursuant to the terms of the LSA, we were required to make monthly interest payments for all outstanding borrowings at an interest rate equal to the greater of (a) prime rate plus 3.25% or (b) 6.5% and monthly principal payments of 1/24th of our principal borrowings plus interest. As of June 30, 2017, our outstanding term loans balance of $3.5 million was due within the next twelve months, and is classified as current portion of notes payable on our consolidated balance sheet. In July 2017, we paid in full the entire outstanding term loans balance and accrued interest, with no penalty for prepayment.

Interest expense related to the term loans was $70 thousand and $152 thousand for the three and six months ended June 30, 2017. As of June 30, 2017, we had accrued interest of $22 thousand. There are no financial covenants associated with these term loans. As of June 30, 2017, we were in compliance with all non-financial covenants.

6. Loss Per Share of Common Stock

Basic loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted loss per share includes the effect, if any, from the potential exercise or conversion of securities, such as convertible preferred stock, convertible notes payable, warrants, stock options, and unvested restricted stock, which would result in the issuance of incremental shares

8

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

of common stock. In computing the basic and diluted net loss per share applicable to common stockholders, the weighted average number of shares remains the same for both calculations due to the fact that when a net loss exists, dilutive shares are not included in the calculation. These potentially dilutive securities are more fully described in Note 8, and summarized in the table below:

	June 30, 2017	2016
Restricted stock	409,300	—
Stock options	2,908,836	1,780,222
	3,318,136	1,780,222

7. Investments

As of June 30, 2017, our investments consisted of certificates of deposit with various financial institutions, with original maturities ranging from three to 18 months. Certificates of deposit with remaining maturities less than 12 months are classified as short-term investments on our consolidated balance sheets. All investments are classified as held-to-maturity and are recorded at amortized cost. Fair value of our investments approximates the carrying value on our balance sheet.

8. Stockholders’ Equity

In 2005, we adopted the 2005 Stock Option and Incentive Plan (2005 Plan) that authorizes us to grant options, restricted stock and other equity-based awards. As of June 30, 2017, 430,922 options to purchase shares of common stock were outstanding pursuant to grants in connection with the 2005 Plan. No additional shares are available for issuance under the 2005 Plan.

Effective August 2014, we adopted our 2014 Equity Incentive Plan, amended in May 2017 (2014 Plan), that authorizes us to grant options, restricted stock, and other equity-based awards, subject to adjustment in accordance with the 2014 Plan. The amended 2014 Plan is attached as an exhibit to this quarterly report on Form 10-Q. The amount, terms of grants, and exercisability provisions are determined and set by our board of directors. As of June 30, 2017, 2,477,914 options to purchase shares of common stock and 409,300 shares of restricted stock were outstanding pursuant to grants in connection with the 2014 Plan, and 1,259,850 shares of common stock were available for future issuance. The amount, terms of grants, and exercisability provisions are determined and set by our board of directors.

Stock Options

There were 2,908,836 stock options outstanding as of June 30, 2017 at a weighted-average exercise price of $4.98 per share. During the six months ended June 30, 2017, 818,800 options were granted to employees, directors and consultants at a weighted-average exercise price of $1.82 per share, and 149,008 options were forfeited at a weighted-average exercise price of $8.26 per share.

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Total compensation cost recognized for all stock option awards in the statements of operations is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Research and development	$ 175	$ 213	$ 370	$ 446
General and administrative	489	525	955	1,030
Total	$ 664	$ 738	$ 1,325	$ 1,476

Restricted Stock

All issued and outstanding restricted shares of common stock are time-based, and become vested between one and three years after the grant date. Compensation expense is recorded ratably over the requisite service period. Compensation expense related to restricted stock is measured based on the fair value using the closing market price of our common stock on the date of the grant.

During the six months ended June 30, 2017, we issued 245,200 restricted shares of common stock to employees, directors and consultants. As of June 30, 2017 there were 409,300 restricted shares of common stock outstanding, and 7,800 shares vested during the six months ended June 30, 2017.

Total compensation cost recognized for all restricted stock awards in the statements of operations is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Research and development	$ 31	$ —	$ 49	$ —
General and administrative	77	—	145	—
Total	$ 108	$ —	$ 194	$ —

Equity Distribution Agreement

In August 2015, we entered into an Equity Distribution Agreement (EDA) with JMP Securities LLC (JMP), under which JMP, as our exclusive agent, at our discretion and at such times that we may determine from time to time, may sell over a three-year period up to a maximum of $35 million of shares of our common stock. We are not required to sell any shares at any time during the term of the EDA.

The EDA will terminate upon the earliest of: (1) the sale of all shares subject to the EDA, (2) August 15, 2018 or (3) the termination of the EDA in accordance with its terms. Either party may terminate the EDA at any time upon written notification to the other party in accordance with the EDA, and upon such notification, the offering will terminate.

We agreed to pay JMP a commission of up to 3.0% of the gross sales price of any shares sold pursuant to the EDA. With the exception of expenses related to the shares, JMP will be responsible for all of its own costs and expenses incurred in connection with the offering.

Table of Contents

MARINUS PHARMACEUTICALS, INC. AND SUBSIDIARY

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

During the six months ended June 30, 2017, we issued 2,489,884 shares of our common stock pursuant to the EDA for aggregate net proceeds to us of $3.3 million. As of June 30, 2017, $31.6 million remained available under the EDA, subject to certain SEC limitations on the amounts that may be sold in any 12-month period. In July 2017, we issued an additional 3,655,987 shares of our common stock pursuant to the EDA for aggregate net proceeds to us of $4.9 million.

9. Commitments

In March 2017, the Company and CyDex Pharmaceuticals, Inc. (CyDex) entered into a License Agreement and a Supply Agreement. Under the terms of the License Agreement, CyDex has granted us an exclusive license to use CyDex's Captisol drug formulation system and related intellectual property in connection with the development and commercialization of ganaxolone in any and all therapeutic uses in humans, with some exceptions.

As consideration for this license, we paid an upfront fee which was recorded as research and development expense in the three months ended March 31, 2017, and are required to make additional payments in the future upon achievement of various specified clinical and regulatory milestones. We will also be required to pay royalties to CyDex on sales of ganaxolone, if successfully developed, in the low-to-mid single digits based on levels of annual net sales.

Under the terms of the Supply Agreement, we are required to purchase all of our requirements for Captisol with respect to ganaxolone from CyDex, and CyDex is required to supply us with Captisol for such purposes, subject to certain limitations.

.

11

Table of Contents

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "might," "objective," "ongoing," "plan," "predict," "project," "potential," "should," "will," or "would," and or the negative of t or other comparable terminology intended to identify statements about the future. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report on Form 10-Q, we caution you that these statements are based on a combination of facts and factors currently known by us and our expectations of the future, about which we cannot be certain.

The forward-looking statements in this Quarterly Report on Form 10-Q include, among other things, statements about:

- our ability to develop and commercialize ganaxolone;
- status, timing and results of preclinical studies and clinical trials;
- the potential benefits of ganaxolone;
- the timing of seeking regulatory approval of ganaxolone;
- our ability to obtain and maintain regulatory approval;
- our estimates of expenses and future revenue and profitability;
- our estimates regarding our capital requirements and our needs for additional financing;
- our plans to develop and market ganaxolone and the timing of our development programs;
- our estimates of the size of the potential markets for ganaxolone;
- our selection and licensing of ganaxolone;
- our ability to attract collaborators with acceptable development, regulatory and commercial expertise;
- the benefits to be derived from corporate collaborations, license agreements, and other collaborative or acquisition efforts, including those relating to the development and commercialization of ganaxolone;
- sources of revenue, including contributions from corporate collaborations, license agreements, and other collaborative efforts for the development and commercialization of products;
- our ability to create an effective sales and marketing infrastructure if we elect to market and sell ganaxolone directly;
- the rate and degree of market acceptance of ganaxolone;

Table of Contents

- the timing and amount or reimbursement for ganaxolone;
- the success of other competing therapies that may become available;
- the manufacturing capacity for ganaxolone;
- our intellectual property position;
- our ability to maintain and protect our intellectual property rights;
- our results of operations, financial condition, liquidity, prospects, and growth strategies;
- the industry in which we operate; and
- the trends that may affect the industry or us.

You should refer to Part II Item 1A. “Risk Factors” of this Quarterly Report on this Form 10-Q for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Quarterly Report on Form 10-Q will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame or at all. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this Quarterly Report on Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with: (i) the interim consolidated financial statements and related notes thereto which are included in this Quarterly Report on Form 10-Q; and (ii) our annual financial statements for the year ended December 31, 2016 which are included in our Annual Report on Form 10-K filed with the SEC on March 13, 2017.

Overview

We are a clinical stage biopharmaceutical company focused on developing and commercializing innovative therapeutics to treat epilepsy and neuropsychiatric disorders. Our clinical stage product candidate, ganaxolone, is a positive allosteric modulator of the $GABA_A$ receptor being developed in three different dose forms: intravenous (IV), oral capsule and oral liquid. The multiple dose forms are intended to maximize the therapeutic range of ganaxolone for both adult and pediatric patient populations, in both acute and chronic care, and both in-patient and self-administered settings. Ganaxolone exhibits anti-seizure, anti-depression and anti-anxiety actions via its effects on synaptic and extrasynaptic $GABA_A$ receptors.

Postpartum Depression (PPD)

In June 2017, we initiated a Phase 2 double-blind, placebo-controlled clinical trial to evaluate the safety, efficacy and pharmacokinetics (PK) of ganaxolone IV in women diagnosed with severe PPD (Magnolia study). The clinical development plan with ganaxolone in PPD includes the Magnolia study, along with the soon to be initiated study to evaluate ganaxolone oral capsules in moderate PPD patients (Amaryllis study). We have begun dosing in the Magnolia study and data from the initial cohort are expected in the second half of 2017. Subsequent Magnolia study

Table of Contents

cohorts could include shorter- or higher-dose intravenous regimens alone or in sequential administration with oral ganaxolone.

Orphan Pediatric Epilepsies

We are evaluating selected indications which we believe could benefit from the seizure and/or behavioral effects of ganaxolone's $GABA_A$ modulatory mechanism. To that end, ganaxolone is currently being evaluated in an ongoing Phase 2 open-label exploratory study as a treatment for orphan pediatric epilepsies including CDKL5 disorder, Lennox Gastaut Syndrome (LGS) and PCDH19 pediatric epilepsy (PCDH19-PE). In addition, we recently completed a Phase 2 double-blind placebo-controlled crossover study for the treatment of anxiety and attention deficit in children with Fragile X Syndrome (FXS). Children with orphan pediatric epilepsies and children with FXS often suffer from the same co-morbidities including cognitive and developmental impairment, behavioral challenges, sleep disorder and seizures. Ganaxolone could be helpful to these patients across a range of these co-morbidities.

We expect to complete and announce top-line results from the ongoing Phase 2 CDKL5 disorder and LGS cohorts of the orphan pediatric epilepsy study in the third quarter of 2017. These results along with those from the completed PCDH19-PE cohort and FXS Phase 2 study will be evaluated and prioritized based upon clinical results, anticipated regulatory pathway, program risk assessments and commercial considerations for advancement to late-stage clinical trials.

Status Epilepticus (SE)

We are making preparations to initiate a Phase 2 clinical trial with ganaxolone IV in patients with SE in the second half of 2017 and will disclose particulars on design, scope and timing when we initiate the study.

Our operations to date have consisted primarily of organizing and staffing our company and developing ganaxolone, including conducting preclinical testing and clinical trials. We have funded our operations primarily through sales of equity and debt securities. At June 30, 2017, we had cash, cash equivalents and investment balances of $20.3 million. We have no products currently available for sale, have incurred operating losses since inception, have not generated any product sales revenue and have not achieved profitable operations. We incurred a net loss of $10.0 million for the six months ended June 30, 2017. Our accumulated deficit as of June 30, 2017 was $135.8 million, and we expect to continue to incur substantial losses in future periods. We anticipate that our operating expenses will increase substantially as we continue to advance our clinical-stage product candidate, ganaxolone.

We anticipate that our expenses will increase substantially as we:

conduct later stage clinical trials in targeted indications, which could include PPD, SE, CDKL5 disorder, LGS, PCDH19-PE, FXS and others;

continue the research, development and scale-up manufacturing capabilities to optimize products and dose forms for which we may obtain regulatory approval;

conduct other preclinical and clinical studies to support the filing of New Drug Applications (NDAs) with the Food and Drug Administration (FDA) and other regulatory agencies in other countries;

maintain, expand and protect our global intellectual property portfolio;

hire additional clinical, manufacturing, and scientific personnel; and

- add operational, financial and management information systems and personnel, including personnel to support our drug development and potential future commercialization efforts.

We believe that our cash, cash equivalents and investments as of June 30, 2017, including net proceeds received in July 2017 pursuant to our Equity Distribution Agreement with JMP Sceurities LLC, will enable us to fund our operating

Table of Contents

expenses and capital expenditure requirements into the fourth quarter of 2018. However, we will need to secure additional funding in the future, from one or more equity or debt financings, collaborations, or other sources, in order to carry out all of our planned research and development activities with respect to ganaxolone.

Financial Overview

Research and Development Expenses

Our research and development expenses consist primarily of costs incurred for the development of ganaxolone, which include:

- employee-related expenses, including salaries, benefits, travel and stock-based compensation expense;
- expenses incurred under agreements with Clinical Research Organizations (CROs) and investigative sites that conduct our clinical trials and preclinical studies;
- the cost of acquiring, developing and manufacturing clinical trial materials;
- facilities, depreciation and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, insurance and other supplies; and
- costs associated with preclinical activities and regulatory operations.

We expense research and development costs as we incur them. We record costs for some development activities, such as clinical trials, based on an evaluation of the progress to completion of specific tasks using data such as subject enrollment, clinical site activations or information our vendors provide to us.

We will incur substantial costs beyond our present and planned clinical trials in order to file an NDA and Supplemental New Drug Applications (sNDAs) for ganaxolone for various clinical indications, and in each case, the nature, design, size and cost of further studies and trials will depend in large part on the outcome of preceding studies and trials and discussions with regulators. It is difficult to determine with certainty the costs and duration of our current or future clinical trials and preclinical studies, or if, when or to what extent we will generate revenue from the commercialization and sale of ganaxolone if we obtain regulatory approval. We may never succeed in achieving regulatory approval for ganaxolone. The duration, costs and timing of clinical trials and development of ganaxolone will depend on a variety of factors, including the uncertainties of future clinical trials and preclinical studies,

uncertainties in clinical trial enrollment rate and significant and changing government regulation.

In addition, the probability of success for ganaxolone will depend on numerous factors, including competition, manufacturing capability and commercial viability. See “Risk Factors.” Our commercial success depends upon attaining significant market acceptance of ganaxolone, if approved, among physicians, patients, healthcare payors and the medical community. We will determine which programs to pursue and how much to fund each program in response to the scientific and clinical success of ganaxolone, as well as an assessment of ganaxolone’s commercial potential.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for executive and other administrative personnel and consultants, including stock-based compensation and travel expenses. Other general and administrative expenses include professional fees for legal, patent review, consulting and accounting services. General and administrative expenses are expensed when incurred. We expect that our general and administrative expenses will increase in the future as a result of new management and employee hiring and the scaling of our operations to support more advanced clinical trials.

Table of Contents

Interest Income

Interest income consists principally of interest income earned on cash and cash equivalent and investment balances.

Interest Expense

Interest expense is primarily attributable to interest expense associated with our credit facility entered into in April 2014, as amended, which was paid in full and closed in July 2017.

Results of Operations

Research and Development Expenses

Research and development expenses decreased to $2.8 million and $6.4 million for the three and six months ended June 30, 2017, respectively, as compared to $7.3 million and $12.8 million for the same periods in the prior year. The decreases were primarily due to a decrease of $4.6 million and $7.5 million for the three and six month periods ended June 30, respectively, associated with our drug-resistant focal onset seizures program, which discontinued in June 2016. The decrease was partially offset by an increase of $0.3 million and $1.0 million for the three and six month periods ended June 30, respectively, associated with our IV programs in PPD, for which a Phase 2 clinical trial was initiated in June 2017, and SE, for which a Phase 2 clinical trial is planned to commence in the second half of 2017.

The primary drivers of our research and development expenditures have been in our drug-resistant focal onset seizures and IV programs. We incurred $0.3 million and $1.4 million in research and development expenses related to our preclinical and clinical activities associated with our drug-resistant focal onset seizures program in the three and six months ended June 30, 2017, respectively, compared to $4.8 million and $8.8 million for the same periods in the prior year. We incurred $0.9 million and $2.0 million in research and development expenses related to our preclinical and clinical activities associated with our IV programs in PPD and SE in the three and six months ended June 30, 2017, respectively, compared to $0.7 million and $1.0 million for the same periods in the prior year.

Prospectively, we do not expect to incur significant expenses for our focal onset seizure program as this program has been discontinued. We plan to focus our resources and near-term development efforts on other indications such as, PPD, SE and other pediatric orphan indications

General and Administrative Expenses

General and administrative expenses were $1.7 million and $3.5 million for the three and six months ended June 30, 2017 as compared to similar expense amounts of $1.6 million and $3.2 million for the same periods in the prior year.

Liquidity and Capital Resources

Since inception, we have incurred net losses and negative cash flows from our operations. We incurred a net loss of $10.0 million for the six months ended June 30, 2017. Our cash used in operating activities was $11.2 million for the six months ended June 30, 2017 compared to $12.3 million for the same period a year ago. Historically, we have financed our operations principally through the sale of common stock, preferred stock and convertible debt, and the use of term loans. At June 30, 2017, we had cash, cash equivalents and investment balances of $20.3 million. In July 2017 we paid in full the remaining term loan balance of $3.5 million, and received net proceeds of $4.9 million through the sale of our common stock in connection with our Equity Distribution Agreement with JMP Securities LLC.

Credit Facility

In 2014, we borrowed an aggregate of $7.0 million in connection with a Loan and Security Agreement, as amended (LSA). Through June 30, 2017 and pursuant to the terms of the LSA, we were required to make monthly

Table of Contents

interest payments for all outstanding borrowings at an interest rate equal to the greater of (a) prime rate plus 3.25% or (b) 6.5% and monthly principal payments of 1/24th of our principal borrowings plus interest. As of June 30, 2017, our outstanding term loans balance of $3.5 million was due within the next twelve months, and is classified as current portion of notes payable on our consolidated balance sheet. In July 2017, we paid in full the entire outstanding balance and accrued interest, with no penalty for prepayment and closed the facility.

Interest expense related to the term loans was $70 thousand and $152 thousand for the three and six months ended June 30, 2017, respectively. As of June 30, 2017, we had accrued interest of $27 thousand. There are no financial covenants associated with these term loans. As of June 30, 2017, we were in compliance with all non-financial covenants.

Cash Flows

Operating Activities. Cash used in operating activities decreased to $11.2 million for the six months ended June 30, 2017 compared to $12.3 million for the same period a year ago. The decrease was driven primarily by a decrease in our net loss of $6.2 million, partially offset by a decrease in the change in operating assets and liabilities of $5.2 million. The net decrease in the change in operating assets and liabilities was primarily due to upfront payments for planned clinical trials in our IV program, payment of corporate insurance premiums and the timing of payment obligations related to our drug supply in 2016.

Investing Activities. Cash provided by investing activities for the six months ended June 30, 2017 represents maturities of $3.2 million in certificates of deposit offset by payments of $0.1 million for equipment. Cash used in investing activities for the six months ended June 30, 2016 represents payments of $0.4 million for equipment and $2.4 million in purchases of certificates of deposit, offset by maturities of $2.7 million in certificates of deposit.

Financing Activities. Cash provided by financing activities was $1.5 million for the six months ended June 30, 2017 due to net proceeds of $3.3 million in connection with equity issuances from our Equity Distribution Agreement with JMP Securities LLC offset by $1.8 million in debt repayments. Cash used in financing activities for the six months ended June 30, 2016 of $0.3 million was due to payments of public offering costs and payments made to a third-party vendor for financed insurance premiums of $0.2 million each, offset by $0.1 million received from the exercise of outstanding stock options.

Funding Requirements

We have never been profitable since our inception, and we expect to continue to incur net losses for the foreseeable future. We expect our cash expenditures to increase in the near term as we fund our planned clinical trials for ganaxolone.

We believe that our cash, cash equivalents and investments as of June 30, 2017, including net proceeds received in July 2017 pursuant to our Equity Distribution Agreement with JMP Sceurities LLC, will enable us to fund our operating expenses and capital expenditure requirements into the fourth quarter of 2018. However, we will need to raise substantial additional financing in the future to fund our operations. In order to meet these additional cash requirements, we may seek to sell additional equity or convertible debt securities that may result in dilution to our

stockholders. If we raise additional funds through the issuance of convertible debt securities, these securities could have rights senior to those of our common stock and could contain covenants that restrict our operations. There can be no assurance that we will be able to obtain additional equity or debt financing on terms acceptable to us, if at all. Our failure to obtain sufficient funds on acceptable terms when needed could have a negative impact on our business, results of operations, and financial condition. Our future capital requirements will depend on many factors, including:

· the results of our preclinical studies and clinical trials;

· the development, formulation and commercialization activities related to ganaxolone;

Table of Contents

- the scope, progress, results and costs of researching and developing ganaxolone or any other future product candidates, and conducting preclinical studies and clinical trials;

- the timing of, and the costs involved in, obtaining regulatory approvals for ganaxolone or any other future product candidates;

- the cost of commercialization activities if ganaxolone or any other future product candidates are approved for sale, including marketing, sales and distribution costs;

- the cost of manufacturing ganaxolone or any other future product candidates in preclinical studies, clinical trials and, if approved, in commercial sale;

- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements;

- any product liability, infringement or other lawsuits related to our products;

- the expenses needed to attract and retain skilled personnel;

- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation; and

- the timing, receipt and amount of sales of, or royalties on, future approved products, if any.

Please see “Risk Factors” for additional risks associated with our substantial capital requirements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable SEC regulations.

Discussion of Critical Accounting Policies and Significant Judgments and Estimates

The preparation of financial statements in conformity with GAAP requires us to use judgment in making certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses in our financial statements and accompanying notes. Critical accounting policies are those that are most important to the portrayal of our financial condition and results of operations and require difficult, subjective and complex judgments by management in order to make estimates about the effect of matters that are inherently uncertain. During the six months ended June 30, 2017, there were no significant changes to our critical accounting policies from those described in our annual financial statements for the year ended December 31, 2016, which we included in our Annual Report on Form 10-K and was filed with the SEC

on March 13, 2017.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risks in the ordinary course of our business. These market risks are principally limited to interest rate fluctuations.

We had cash, cash equivalents and investment balances of $20.3 million at June 30, 2017, consisting primarily of funds in cash, money market accounts and certificates of deposit. The primary objective of our investment activities is to preserve principal and liquidity while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Due to the conservative nature of our investment portfolio, we do not believe an immediate 1.0% increase in interest rates would have a material effect on the fair market value of our portfolio, and accordingly we do not expect a sudden change in market interest rates to affect materially our operating results or cash flows.

Table of Contents

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2017. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2017, our disclosure controls and procedures were effective to ensure that the information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(f) and 15d-15(f) of the Exchange Act that occurred during the quarter ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become subject to litigation and claims arising in the ordinary course of business. We are not currently a party to any material legal proceedings, and we are not aware of any pending or threatened legal proceedings against us that we believe could have a material adverse effect on our business, operating results or financial condition.

Item 1A. Risk Factors

We have incurred significant losses since our inception and anticipate that we will continue to incur losses in the future.

We commenced operations in 2003 and our operations to date have been limited to conducting product development activities for ganaxolone and performing research and development with respect to our clinical and preclinical programs. In addition, as a clinical stage biopharmaceutical company, we have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical area. Nor have we demonstrated an ability to obtain regulatory approval to commercialize any of our product candidates. Consequently, any predictions about our future performance may not be as accurate as they would be if we had a history of successfully developing and commercializing biopharmaceutical products.

We have incurred significant operating losses since our inception, including a net loss of $9.9 million for the six months ended June 30, 2017. As of June 30, 2017, we had an accumulated deficit of $135.8 million. Our prior losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders' equity and working capital. Our losses have resulted principally from costs incurred in our research and development activities. We anticipate that our operating losses will substantially increase over the next several years as we execute our plan to expand our research, development and commercialization activities, including the clinical development and planned commercialization of our product candidate, ganaxolone. In addition, if we obtain regulatory approval of ganaxolone, we may incur significant sales and marketing expenses. Because of the numerous risks and uncertainties associated with developing biopharmaceutical products, we are unable to predict the extent of any future losses or whether or when we will become profitable, if ever.

We have not generated any revenue to date from product sales. We may never achieve or sustain profitability, which could depress the market price of our common stock, and could cause you to lose all or a part of your investment.

To date, we have no products approved for commercial sale and have not generated any revenue from sales of any of our product candidates, and we do not know when, or if, we will generate revenues in the future. Our ability to generate revenue from product sales and achieve profitability will depend upon our ability to successfully gain regulatory approval and commercialize ganaxolone or other product candidates that we may develop, in-license or acquire in the future. Even if we obtain regulatory approval for ganaxolone, we do not know when we will generate revenue from product sales, if at all. Our ability to generate revenue from product sales from ganaxolone or any other future product candidates also depends on a number of additional factors, including our ability to:

- successfully complete development activities, including enrollment of study participants and completion of the necessary clinical trials;

- complete and submit NDAs to the FDA and obtain regulatory approval for indications for which there is a commercial market;

- complete and submit applications to, and obtain regulatory approval from, foreign regulatory authorities;

Table of Contents

make or have made commercial quantities of our products at acceptable cost levels;

develop a commercial organization capable of manufacturing, selling, marketing and distributing any products we intend to sell ourselves in the markets in which we choose to commercialize on our own;

find suitable partners to help us market, sell and distribute our approved products in other markets; and

obtain adequate pricing, coverage and reimbursement from third parties, including government and private payers.

In addition, because of the numerous risks and uncertainties associated with product development, including that ganaxolone may not advance through development or achieve the endpoints of applicable clinical trials, we are unable to predict the timing or amount of increased expenses, or if or when we will be able to achieve or maintain profitability. Even if we are able to complete the development and regulatory process for ganaxolone, we anticipate incurring significant costs associated with commercializing ganaxolone.

Even if we are able to generate revenue from the sale of ganaxolone or any future commercial products, we may not become profitable and will need to obtain additional funding to continue operations. If we fail to become profitable or are unable to sustain profitability on a continuing basis, and we are not successful in obtaining additional funding, then we may be unable to continue our operations at planned levels, or at all, which would likely materially and adversely affect the market price of our common stock.

We will require additional capital to fund our operations and if we fail to obtain necessary financing, we may be unable to complete the development and commercialization of ganaxolone.

Our operations have consumed substantial amounts of cash since inception. We expect to continue to spend substantial amounts to advance the clinical and regulatory development of ganaxolone, if approved, and commercialize ganaxolone. We will require additional capital for the further development and potential commercialization of ganaxolone and may also need to raise additional funds sooner should we choose to accelerate development of ganaxolone. If we are unable to raise capital when needed or on attractive terms, we could be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts.

We believe that our cash, cash equivalents and investments as of June 30, 2017, including net proceeds received in July 2017 pursuant to our Equity Distribution Agreement with JMP Sceurities LLC, will enable us to fund our

operating expenses and capital expenditure requirements into the fourth quarter of 2018. We have based this estimate on assumptions that may prove to be wrong, and we could exhaust our available capital resources sooner than we currently expect. Our future funding requirements, both near and long-term, will depend on many factors, including, but not limited to the:

- initiation, progress, timing, costs and results of preclinical studies and clinical trials, including patient enrollment in such trials, for ganaxolone or any other future product candidates;

- clinical development plans we establish for ganaxolone and any other future product candidates;

- obligation to make royalty and non-royalty sublicense receipt payments to third-party licensors, if any, under our licensing agreements;

- number and characteristics of product candidates that we discover or in-license and develop;

- outcome, timing and cost of regulatory review by the FDA and comparable foreign regulatory authorities, including the potential for the FDA or comparable foreign regulatory authorities to require that we perform more studies than those that we currently expect;

Table of Contents

- costs of filing, prosecuting, defending and enforcing any patent claims and maintaining and enforcing other intellectual property rights;

- effects of competing technological and market developments;

- costs and timing of the implementation of commercial-scale manufacturing activities; and

- costs and timing of establishing sales, marketing and distribution capabilities for any product candidates for which we may receive regulatory approval.

If we are unable to expand our operations or otherwise capitalize on our business opportunities due to a lack of capital, our ability to become profitable will be compromised. Failure to progress our product development or commercialization of ganaxolone as anticipated will have a negative effect on our business, future prospects and ability to obtain further financing on acceptable terms, if at all, and the value of the enterprise.

Raising additional capital could dilute our stockholders, restrict our operations or require us to relinquish rights to ganaxolone or any other future product candidates.

Until we can generate substantial revenue from product sales, if ever, we expect to seek additional capital through a combination of private and public equity offerings, debt financings, strategic collaborations and alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interests of stockholders will be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of stockholders. Debt financing, if available, may involve agreements that include liens or restrictive covenants limiting our ability to take important actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through strategic collaborations and alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to ganaxolone or any other future product candidates in particular countries, or grant licenses on terms that are not favorable to us. If we are unable to raise additional funds through equity or debt financing when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant rights to develop and market ganaxolone or any other future product candidates that we would otherwise prefer to develop and market ourselves.

We are currently subject to a limit on the amount of securities we may sell under Form S-3 due to the size of our Public Float. If we are unable to fully utilize our Form S-3, we may not be able to raise sufficient capital on terms that are favorable or acceptable to us.

Because the aggregate market value of our common equity held by non-affiliates (Public Float) is less than $75 million, our ability to sell securities under our Form S-3 is currently limited to an amount equal to no more than one-third of our Public Float in any 12-month period. We will continue to be subject to this limitation so long as our Public Float is less than $75 million. As of July 25, 2017, a date that is within 60 days of filing this Form 10-Q, our Public Float was $45.7 million, based on 23.1 million shares and at a price of $1.98 per share. Therefore, as of the date of this filing, we may not sell more than an additional $6.8 million of equity securities under Form S-3. However, if our stock price were to decline or increase, we would be limited to a lower or higher amount, respectively, that we can sell under our Form S-3 while subject to this limitation.

We intend to expend our limited resources to pursue our sole clinical stage product candidate, ganaxolone, and may fail to capitalize on other indications, technologies or product candidates that may be more profitable or for which there may be a greater likelihood of success.

Because we have limited financial and managerial resources, we are focusing on research programs relating to ganaxolone, which concentrates the risk of product failure in the event ganaxolone proves to be ineffective or inadequate for clinical development or commercialization in this indication. As a result, we may forego or delay pursuit of opportunities for other technologies or product candidates that later could prove to have greater commercial potential. We may be unable to capitalize on viable commercial products or profitable market opportunities as a result of our resource allocation decisions. Our spending on proprietary research and development programs relating to ganaxolone

Table of Contents

may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for ganaxolone, we may relinquish valuable rights to ganaxolone through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to ganaxolone.

Risks Related to Our Business and Development of Our Product

Our future success is dependent on the successful clinical development, regulatory approval and commercialization of ganaxolone, which is currently undergoing two clinical trials and will require significant capital resources and years of additional clinical development effort.

We do not have any products that have gained regulatory approval. Currently, our only clinical stage product candidate is ganaxolone. As a result, our business is dependent on our ability to successfully complete clinical development of, obtain regulatory approval for, and, if approved, successfully commercialize ganaxolone in a timely manner. We cannot commercialize ganaxolone in the United States without first obtaining regulatory approval from the FDA; similarly, we cannot commercialize ganaxolone outside of the United States without obtaining regulatory approval from comparable foreign regulatory authorities. Before obtaining regulatory approvals for the commercial sale of ganaxolone for a target indication, we must demonstrate with substantial evidence gathered in preclinical studies and clinical trials, generally including two adequate and well-controlled clinical trials, and, with respect to approval in the United States, to the satisfaction of the FDA, that ganaxolone is safe and effective for use for that target indication and that the manufacturing facilities, processes and controls are adequate. Even if ganaxolone were to obtain approval from the FDA and comparable foreign regulatory authorities, any approval might contain significant limitations, such as restrictions as to specified age groups, warnings, precautions or contraindications, or may be subject to burdensome post-approval study or risk management requirements. If we are unable to obtain regulatory approval for ganaxolone in one or more jurisdictions, or any approval contains significant limitations, we may not be able to obtain sufficient funding or generate sufficient revenue to continue the development of any other product candidate that we may in-license, develop or acquire in the future. Furthermore, even if we obtain regulatory approval for ganaxolone, we will still need to develop a commercial organization, establish commercially viable pricing and obtain approval for adequate reimbursement from third-party and government payers. If we are unable to successfully commercialize ganaxolone, we may not be able to earn sufficient revenue to continue our business.

Because the results of preclinical studies or earlier clinical trials are not necessarily predictive of future results, ganaxolone may not have favorable results in later preclinical studies or clinical trials or receive regulatory approval.

Success in preclinical studies and early clinical trials does not ensure that later trials will generate adequate data to demonstrate the efficacy and safety of ganaxolone. A number of companies in the pharmaceutical and biotechnology industries, including those with greater resources and experience, have suffered significant setbacks in preclinical studies and clinical trials, even after seeing promising results in earlier studies and trials. For example, while ganaxolone showed statistical separation from placebo in a Phase 2 study in adjunctive treatment of adults with focal

onset seizures, ganaxolone failed to show a similar statistical separation in a Phase 3 study for the same indication. As a result, we are discontinued our program in adult focal onset seizures and to focus our efforts on advancing ganaxolone in postpartum depression, status epilepticus, and pediatric orphan indications. We do not know whether the clinical trials we may conduct will demonstrate adequate efficacy and safety to result in regulatory approval to market ganaxolone in any particular jurisdiction or indication. If clinical trials underway or conducted in the future do not produce favorable results, our ability to achieve regulatory approval for ganaxolone may be adversely impacted.

The therapeutic efficacy and safety of ganaxolone are unproven, and we may not be able to successfully develop and commercialize ganaxolone in the future.

Ganaxolone is a novel compound and its potential therapeutic benefit is unproven. Our ability to generate revenue from ganaxolone, which we do not expect will occur for at least the next several years, if ever, will depend heavily on our successful development and commercialization after regulatory approval, which is subject to many potential risks and may not occur. Ganaxolone may interact with human biological systems in unforeseen, ineffective or harmful ways. If ganaxolone is associated with undesirable side effects or has characteristics that are unexpected, we

Table of Contents

may need to abandon its development or limit development to certain uses or subpopulations in which the undesirable side effects or other characteristics are less prevalent, less severe or more acceptable from a risk-benefit perspective. Many compounds that initially showed promise in early stage testing for treating the target indications for ganaxolone have later been found to cause side effects that prevented further development of the compound. As a result of these and other risks described herein that are inherent in the development of novel therapeutic agents, we may never successfully develop, enter into or maintain third-party licensing or collaboration transactions with respect to, or successfully commercialize, ganaxolone, in which case we will not achieve profitability and the value of our stock may decline.

Clinical development of product candidates involves a lengthy and expensive process with an uncertain outcome.

Clinical testing is expensive, can take many years to complete, and is inherently uncertain as to outcome. Failure can occur at any time during the clinical trial process.

We may experience delays in our ongoing or future clinical trials and we do not know whether planned clinical trials will begin or enroll subjects on time, need to be redesigned or be completed on schedule, if at all. There can be no assurance that the FDA or other foreign regulatory authorities will not put clinical trials of ganaxolone on clinical hold now or in the future. Clinical trials may be delayed, suspended or prematurely terminated for a variety of reasons, such as:

- delay or failure in reaching agreement with the FDA or a comparable foreign regulatory authority on a trial design that we are able to execute;

- delay or failure in obtaining authorization to commence a trial or inability to comply with conditions imposed by a regulatory authority regarding the scope or design of a clinical trial;

- delay or failure in reaching agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

- delay or failure in obtaining institutional review board (IRB) approval or the approval of other reviewing entities, including comparable foreign regulatory authorities, to conduct a clinical trial at each site;

withdrawal of clinical trial sites from our clinical trials as a result of changing standards of care or the ineligibility of a site to participate in our clinical trials;

delay or failure in recruiting and enrolling suitable study subjects to participate in a trial;

delay or failure in study subjects completing a trial or returning for post-treatment follow-up;

clinical sites and investigators deviating from a trial protocol, failing to conduct the trial in accordance with regulatory requirements, or dropping out of a trial;

inability to identify and maintain a sufficient number of trial sites, many of which may already be engaged in other clinical trial programs, including some that may be for competing product candidates with the same indication;

failure of our third-party clinical trial managers to satisfy their contractual duties or meet expected deadlines;

delay or failure in adding new clinical trial sites;

ambiguous or negative interim results or results that are inconsistent with earlier results;

Table of Contents

feedback from the FDA, IRBs, data safety monitoring boards, or a comparable foreign regulatory authority, or results from earlier stage or concurrent preclinical studies and clinical trials, that might require modification to the protocol for the trial;

decision by the FDA, an IRB, a comparable foreign regulatory authority, or us, or recommendation by a data safety monitoring board or comparable foreign regulatory authority, to suspend or terminate clinical trials at any time for safety issues or for any other reason;

unacceptable risk-benefit profile, unforeseen safety issues or adverse side effects or adverse events;

failure of a product candidate to demonstrate any benefit;

difficulties in manufacturing or obtaining from third parties sufficient quantities of a product candidate for use in clinical trials;

lack of adequate funding to continue the clinical trial, including the incurrence of unforeseen costs due to enrollment delays, requirements to conduct additional clinical trials or increased expenses associated with the services of our CROs and other third parties;

political developments that affect our ability to develop and obtain approval for ganaxolone, or license rights to develop and obtain approval for ganaxolone, in a foreign country; or

changes in governmental regulations or administrative actions.

Study subject enrollment, a significant factor in the timing of clinical trials, is affected by many factors including the size and nature of the subject population, the proximity of subjects to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, ability to obtain and maintain subject consents, risk that enrolled subjects will drop out before completion, competing clinical trials and clinicians' and subjects' perceptions as to the potential advantages of the product candidate being studied in relation to other available therapies, including any new drugs that may be approved or product candidates that may be studied in competing clinical trials for the indications we are investigating. Some of our clinical trials are directed at small patient populations. Patient enrollment in these studies could be particularly challenging. In the past, we have experienced delays in enrolling patients in studies directed at small patient populations. We rely on CROs and clinical trial sites to ensure the proper and timely conduct of our

clinical trials, and while we have agreements governing their committed activities, we have limited influence over their actual performance.

If we experience delays in the completion of any clinical trial of ganaxolone, the commercial prospects of ganaxolone may be harmed, and our ability to generate product revenue from ganaxolone, if approved, will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our development and approval process for ganaxolone and jeopardize our ability to commence product sales and generate revenues. In addition, many of the factors that could cause a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of ganaxolone.

Ganaxolone may cause undesirable side effects or have other properties that could delay or prevent its regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following any marketing approval.

Undesirable side effects caused by ganaxolone could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a restrictive label or the delay or denial of regulatory approval by the FDA or other comparable foreign regulatory authority. Although ganaxolone has generally been well tolerated by subjects in our earlier-stage clinical trials, in some cases there were side effects, and some of the side effects were severe. Specifically, in our most recently completed clinical trial, where ganaxolone was administered as an adjunctive to standard therapy in adult subjects with focal onset seizures, the most frequent side effects (those reported in greater than 5% of ganaxolone

76,087

8.Credit Facility:

On January 4, 2013, the Company entered into a $10,000,000 revolving credit facility (the “Credit Facility”) with Citibank, N.A. (“Citibank”) pursuant to a Business Loan Agreement (the “Loan Agreement”), Promissory Note (the “Note”), Commercial Security Agreements (the “Security Agreements”) and Commercial Pledge Agreement (the “Pledge Agreement”). The Credit Facility matures on January 31, 2019, at which time the Company must pay this loan in one payment of any outstanding principal plus all accrued 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 an independent index which is the LIBOR Rate (the “Index”). If the Index becomes unavailable during the term of this loan, Citibank may designate a substitute index after notifying the Company. Interest on the unpaid principal balance of the Note will be calculated using a rate of 1.500 percentage points over the Index. 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 ratio of Total Liabilities to Tangible Net Worth (each as defined in the Loan Agreement) of not greater than 2.50 to 1.00, to be tested quarterly and (ii) a minimum Debt Service Coverage Ratio (as defined in the Loan Agreement) of 2.00 to 1.00. Additionally, the Loan Agreement contains negative covenants related to, among other items, prohibitions against the creation of certain liens, engaging in any business activities substantially different than those currently engaged in by the Company, and paying dividends on the Company’s stock other than (i) dividends payable in its stock and (ii) cash dividends in amounts and frequency consistent with past practice, without first securing the written consent of Citibank. The Company is in compliance with all covenants at June 30, 2017.

At June 30, 2017, the Company had no borrowings outstanding under the Credit Facility.

9.Earnings Per Share:

Basic Earnings Per Share (“EPS”) is calculated by dividing net income attributable to common stockholders by the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS is calculated by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding, adjusted for potentially dilutive securities including unexercised stock option grants and nonvested shares of restricted stock.

10

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

	Six months ended June 30,		Three months ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$ 2,592	$ 2,555	$ 1,275	$ 1,527
Denominator:				
Weighted average shares (Basic)	4,314	4,545	4,285	4,524
Dilutive effect of outstanding options and nonvested shares of restricted stock	23	12	30	11
Weighted average shares including assumed conversions (Diluted)	4,337	4,557	4,315	4,535
Basic net income per share	$ 0.60	$ 0.56	$ 0.30	$ 0.34
Diluted net income per share	$ 0.60	$ 0.56	$ 0.30	$ 0.34

10.Major Customers and Vendors:

The Company had two major vendors that accounted for 26.6% and 14.1%, respectively, of total purchases during the six months ended June 30, 2017, and 22.0% and 14.9% of total purchases for the three months ended June 30, 2017. The Company had two major vendors that accounted for 23.9% and 10.0%, respectively, of total purchases during the six months ended June 30, 2016, and 17.4% and 10.2% of total purchases for the three months ended June 30, 2016. The Company had two major customers that accounted for 21.6% and 19.7%, respectively, of its total net sales during the six months ended June 30, 2017, and 21.5%, and 17.4% of total net sales for the three months ended June 30, 2017. These same customers accounted for 9.2% and 22.8%, respectively, of total net accounts receivable as of June 30, 2017. The Company had two major customers that accounted for 18.9% and 17.9%, respectively, of its total net sales during the six months ended June 30, 2016, and 17.5%, and 14.7% of total net sales for the three months ended June 30, 2016.

11.Income Tax:

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Company has identified its federal consolidated tax return and its state tax return in New Jersey and its Canadian tax return as major tax jurisdictions. The Company’s policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and

interpretations of tax law applied to the facts of each matter.

The effective tax rate for the six and three months ended June 30, 2017 was 31.7% and 31.2%, respectively, compared to 33.7% for the same periods last year.

12.Stockholders' Equity and Stock Based Compensation:

The 2012 Stock-Based Compensation Plan (the "2012 Plan") authorizes the grant of Stock Options, Stock Units, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Stock Bonuses and other equity-based awards. The total number of shares of Common Stock initially available for award under the 2012 Plan was 600,000. As of June 30, 2017, the number of shares of Common stock available for future award grants to employees and directors under the 2012 Plan is 223,188.

During 2012, the Company granted a total of 92,000 shares of Restricted Stock to officers, directors, and employees. These shares of Restricted Stock vest over 20 equal quarterly installments. A total of 3,525 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2013, the Company granted a total of 56,500 shares of Restricted Stock to officers and employees. Included in these grants were 40,000 Restricted Shares granted to the Company's CEO in accordance with the satisfaction of certain performance criteria included in his compensation plan. These 40,000 Restricted Shares vest over

16 equal quarterly installments. The remaining grants of Restricted Stock vest over 20 equal quarterly installments. A total of 775 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

During 2014, the Company granted a total of 98,689 shares of Restricted Stock to officers, directors and employees. These shares of Restricted Stock vest between one and twenty equal quarterly installments. A total of 34,487 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

During 2015, the Company granted a total of 44,000 shares of Restricted Stock to officers. These shares of Restricted Stock vest over sixteen equal quarterly installments. In 2015, a total of 4,465 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

During 2016, the Company granted a total of 171,252 shares of Restricted Stock to officers, directors, and employees. These shares of Restricted Stock vest between one and twenty equal quarterly installments. A total of 7,167 shares of Restricted Stock were forfeited as a result of officers and employees terminating employment with the Company.

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 eight and twenty equal quarterly installments. A total of 36 shares of Restricted Stock were forfeited as a result of employees terminating employment with the Company.

A summary of nonvested shares of Restricted Stock awards outstanding under the Company's the 2012 Plan as of June 30, 2017, and changes during the three months then ended is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested shares at January 1, 2017	186,081	$ 15.58
Granted in 2017	87,076	18.25
Vested in 2017	(46,623)	15.08
Forfeited in 2017	(36)	15.40
Nonvested shares at June 30, 2017	226,498	$ 15.86

As of June 30, 2017, there is approximately $3.6 million of total unrecognized compensation costs related to nonvested share-based compensation arrangements. The unrecognized compensation cost is expected to be recognized

over a weighted-average period of 3.2 years.

For the six months ended June 30, 2017 and 2016, the Company recognized share-based compensation cost of $0.7million and $0.8 million respectively, which is included in the Company's general and administrative expense.

13.Segment Information:

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

The Company is organized into two reportable operating segments. The "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 United States and Canada.

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

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

The following segment reporting information of the Company is provided:

	Six months ended June 30,		Three months ended June 30,	
	2017	2016	2017	2016
Revenue:				
Lifeboat Distribution	$ 200,157	$ 175,999	$ 95,674	$ 89,659
TechXtend	15,621	22,581	7,308	15,598
	215,778	198,580	102,982	105,257
Gross Profit:				
Lifeboat Distribution	$ 11,455	$ 10,699	$ 5,612	$ 5,547
TechXtend	1,876	2,253	960	1,453
	13,331	12,952	6,572	7,000
Direct Costs:				
Lifeboat Distribution	$ 4,276	$ 3,596	$ 2,171	$ 1,778
TechXtend	889	1,062	417	558
	5,165	4,658	2,588	2,336
Segment Income Before Taxes:				
Lifeboat Distribution	$ 7,179	$ 7,103	$ 3,441	$ 3,769
TechXtend	987	1,191	543	895
Segment Income Before Taxes	8,166	8,294	3,984	4,664
General and administrative	$ 4,645	$ 4,558	$ 2,254	$ 2,420
Interest income	321	125	173	61
Foreign currency translation	(50)	(3)	(50)	(3)
Income before taxes	$ 3,792	$ 3,858	$ 1,853	$ 2,302

Selected Assets By Segment:	As of June 30, 2017	As of December 31, 2016
Lifeboat Distribution	$ 52,396	$ 64,558
TechXtend	24,932	32,202
Segment Select Assets	77,328	96,760
Corporate Assets	13,592	16,938

Total Assets	$ 90,920	$ 113,698

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of risk and uncertainties, including those set forth under the heading "Forward Looking Statements" and elsewhere in this report and those set forth in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission. The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes included in this report and the consolidated financial statements and related notes included in our 2016 Annual Report on Form 10-K.

Overview

We distribute software and hardware 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. In addition, we operate a sales branch in Europe to serve our customers in this region of the world. We offer an extensive line of products from leading publishers of software and tools for virtualization/cloud computing, security, networking, storage and infrastructure management, application lifecycle management and other technically sophisticated domains as well as computer hardware. We market these products through creative marketing communications, including our web sites, local and on-line seminars, webinars, social media, direct e-mail, and printed materials.

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

Factors Influencing Our Financial Results

We derive the majority of our net sales 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. 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 shares repurchased were

$0.8 and $0.7 million for the quarter ended June 30, 2017, respectively, and $0.8 million and $1.0 million for the quarter ended June 30, 2016, respectively. The payment of future dividends and share repurchases is at the discretion of our Board of Directors and dependent on results of operations, projected capital requirements and other factors the Board of Directors may find relevant.

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

Forward Looking Statements

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

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Substantial risks and uncertainties unknown at this time could cause actual results to differ materially from those indicated by such forward-looking statements, including, but not limited to, the continued acceptance of the Company's distribution channel by vendors and customers, the timely availability and acceptance of new products, product mix, market conditions, competitive pricing pressures, contribution of key vendor relationships and support programs, including vendor rebates and discounts, as well as factors that affect the software industry in general and other factors generally. We strongly urge current and prospective investors to carefully consider the cautionary statements and risk factors contained in this report and our annual report on Form 10-K for the year ended December 31, 2016.

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

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

new information, future events or otherwise.

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

Financial Overview

Net sales decreased 2%, or $2.3 million, to $103.0 million for the quarter ended June 30, 2017, compared to $105.3 million for the same period in 2016 as growth in our Lifeboat Distribution segment was offset by a decline in TechXtend due to quarterly variability in enterprise account sales. Gross profit decreased 6%, or $0.4 million, to $6.6 million for the quarter ended June 30, 2017, compared to $7.0 million in the prior year. Selling, general and administrative (“SG&A”) expenses increased 2%, or $0.1 million, to approximately $4.8 million for the quarter ended June 30, 2017. Net income decreased 16%, or $0.2 million, to $1.3 million for the quarter ended June 30, 2017, compared to $1.5 million in the same period last year. Weighted average diluted shares outstanding decreased by 5% from the prior year, primarily due to the Company’s shares repurchased. Income per share-diluted decreased 12% to

$0.30 for the quarter ended June 30, 2017, compared to $0.34 for the same period in 2016, partially due to lower net income offset by the decrease in weighted average diluted shares outstanding.

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 generally 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, 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.

Allowance for Accounts Receivable

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

Accounts Receivable – Long Term

The Company's accounts receivable long-term are discounted to their present value at prevailing market rates at the time of sale based on prevailing rates. In doing so, the Company considers competitive market rates and other 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 record the impact of forfeitures when they occur. We review our valuation assumptions periodically and, as a result, we may change our valuation assumptions used to value stock based awards granted in future periods. Such changes may lead to a significant change in the expense we recognize in connection with share-based payments.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. 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. The new standard will result in enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue arising from contracts with customers. Entities are allowed to transition to the new standard by either recasting prior periods or recognizing the cumulative effect as of the beginning of the period of adoption. The standard and related amendments will be effective for the Company for its annual reporting period beginning January 1, 2018, including interim periods within that reporting period. The Company is in the process of developing its conclusions on several aspects of the standard including principal versus agent considerations, identification of performance obligations, the determination of when control of goods and services transfers to the Company’s customer, which transition approach will be applied and the estimated impact it will have on our consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)", ("ASU 2015-11"). Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market, with market value represented by replacement cost, net realizable value or net realizable value less a normal profit margin. The amendments in ASU 2015-11 require an entity to measure inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for reporting periods beginning after December 15, 2016. We adopted ASU 2015-11 during the quarter ended March 31, 2017 and it did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company adopted the provisions of ASU 2016-09 related to the recognition of excess tax benefits in the income statement and classification in the statement of cash flows were

adopted prospectively and the prior periods were not retrospectively adjusted. The Company has elected to account for forfeitures of share-based awards when they occur in determining compensation cost to be recognized each period. The adoption of ASU 2016-09 did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 supersedes the lease guidance under FASB Accounting Standards Codification ("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 and a right-of-use asset representing its right to use the underlying asset for the lease term. Leases will be classified as either finance or operating leases with classification affecting the pattern of expenses recognition in the statement of earnings. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the potential impact of adopting ASU 2016-02 on its consolidated financial statements.

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 it consolidated financial statements.

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

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." This amendment is intended to improve accounting for the income tax consequences of intra-entity transfers of assets other than inventory. In accordance with this guidance, an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The ASU is effective for the Company beginning in fiscal 2019. Early adoption is permitted in fiscal 2018 with modified retrospective application. The Company is continuing to evaluate the impact of the adoption of this guidance on its 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. Early adoption is permitted. The Company has evaluated the potential impacts of this updated guidance, and it does not expect the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

Results of Operations

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

	Six months ended June 30,		Three months ended June 30,	
	2017	2016	2017	2016
Net sales	100.0 %	100 %	100.0 %	100 %
Cost of sales	93.8	93.5	93.6	93.4
Gross profit	6.2	6.5	6.4	6.6

Selling, general and administrative expenses	4.6		4.6		4.7		4.5	
Income from operations	1.6		1.9		1.7		2.1	
Other income	0.2		0.1		0.1		0.1	
Income before income taxes	1.8		2.0		1.8		2.2	
Income tax provision	0.6		0.7		0.6		0.7	
Net income	1.2	%	1.3	%	1.2	%	1.5	%

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Net Sales

Net sales for the quarter ended June 30, 2017 decreased 2%, or $2.3 million, to $103.0 million, compared to $105.3 million for the same period in 2016, as increased net sales in our Lifeboat Distribution segment were offset by decreased TechXtend sales resulting from variability in enterprise sales.

Lifeboat Distribution segment net sales for the quarter ended June 30, 2017 increased $6.0 million, or 7% to $95.7 million, compared to $89.7 million for the same period a year earlier. The increase 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.

TechXtend segment net sales decreased $8.3 million or 53% to $7.3 million for the quarter ended June 30, 2017, compared to $15.6 million for the prior year. The decrease was primarily due to a large enterprise sale of approximately $6.6 million recorded in the second quarter of 2016 which affects the comparability of results. Sales in our TechXtend segment may vary significantly from quarter to quarter based on the timing of IT spending decisions by our larger customers.

During the quarter ended June 30, 2017, we relied on two key customers for a total of 38.9% of our revenue. One major customer accounted for 21.5% and the other for 17.4%, respectively, of our total net sales during the three months ended June 30, 2017. These same customers accounted for 9.2% and 22.8%, respectively, of total net accounts receivable as of June 30, 2017.

Gross Profit

Gross profit for the quarter ended June 30, 2017 decreased 6% or $0.4 million, to $6.6 million, compared to $7.0 million for the same period in 2016. Lifeboat Distribution segment gross profit increased 1% to $5.6 million for the quarter ended June 30, 2017 compared to $5.5 million for the same period in the prior year. TechXtend segment gross profit decreased 34% to $1.0 million for the quarter ended June 30, 2017 compared to $1.5 million for the same period in the prior year. Gross profit decreased primarily due to lower sales in our TechXtend segment and competitive pressures on gross profit margins as discussed below mitigated by the impact of increased sales in our Lifeboat segment.

Gross profit margin (gross profit as a percentage of net sales) for the quarter ended June 30, 2017 was 6.4% compared to 6.7% for the same period in 2016. Lifeboat Distribution segment gross profit margin was 5.9% for the quarter ended June 30, 2017, compared to 6.2% for the same period in 2016. The decrease in gross profit margin for the Lifeboat Distribution segment was primarily caused by competitive pricing pressure and product mix. We operate in a competitive environment where the trend has been for gross profit margins to decline for the past several years. We attribute some of the decline to an increasing portion of our revenues coming from the sale of licenses, maintenance and service agreements that are not associated with a physical product. While our gross profit margin has declined on these products, we have instituted operational efficiencies such as electronic ordering and distribution through the use of EDI and other automation that increase our productivity and enable us to maintain profitability. TechXtend segment gross profit margin for the quarter ended June 30, 2017 was 13.1% compared to 9.3% for the same period in 2016. The increase in gross profit margin was due to a decrease in sales of large enterprise licenses and related equipment typically carry a lower gross profit margin, and lower incremental selling and administrative costs as a percentage of revenue, than smaller account sales.

Vendor rebates and discounts for the quarter ended June 30, 2017 were $0.7 million compared to $0.5 million in the same quarter 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 quarter ended June 30, 2017 increased $0.1 million or 2% to approximately $4.8 million. The increase is primarily due to increased employee related expenses (salaries, and commissions) to support our growth. SG&A expenses were 4.7% of net sales for the quarter ended June 30, 2017, and 4.5% 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 SG&A expenses closely.

Income Taxes

For the three months ended June 30, 2017, the Company recorded a provision for income taxes of $0.6 million or 31.2% of income, compared to $0.8 million or 33.7% of income for the same period in 2016. The decrease in the

effective tax rate is primarily due to the change in tax effects related to share based payments at settlement (or expiration) through the income statement due to the adoption of ASU 2016-09.

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Net Sales

Net sales for the six months ended June 30, 2017 increased 9%, or $17.2 million, to $215.8 million, compared to $198.6 million for the same period in 2016. Net sales increased in our Lifeboat Distribution segment and decreased in our TechXtend segment.

Lifeboat Distribution segment net sales for the six months ended June 30, 2017 increased $24.2 million, or 14% to $200.2 million, compared to $176.0 million for the same period a year earlier. The increase 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 cusotmer 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.

TechXtend segment net sales decreased $7.0 million or 31% to $15.6 million for the six months ended June 30, 2017, compared to $22.6 million for the prior year. The decrease was primarily due to a due to a large enterprise sale of approximately $6.6 million recorded in the second quarter of 2016 that affects comparability. Large enterprise sales tend to fluctuate from quarter to quarter based on the timing of customer purchasing decisions for IT projects.

During the six months ended June 30, 2017, we relied on two key customers for a total of 41.3% of our revenue. One major customer accounted for 21.6% and the other for 19.7%, respectively, of our total net sales during the three months ended June 30, 2017. These same customers accounted for 9.2% and 22.8%, respectively, of total net accounts receivable as of June 30, 2017.

Gross Profit

Gross profit for the six months ended June 30, 2017 increased 3% or $0.4 million, to $13.3 million, compared to $13.0 million for the same period in 2016. Lifeboat Distribution segment gross profit increased 7% to $11.5 million for the six months ended June 30, 2017 compared to $10.7 million for the same period in the prior year. TechXtend segment gross profit decreased 17% to $1.9 million for the six months ended June 30, 2017 compared to $2.3 million for the same period in the prior year. Gross profit decreased primarily due to lower sales in our TechXtend segment and competitive pressures on gross profit margins as discussed below, mitigated by the impact of increased sales in our Lifeboat segment.

Gross profit margin (gross profit as a percentage of net sales) for the six months ended June 30, 2017 was 6.2% compared to 6.5% for the same period in 2016. Lifeboat Distribution segment gross profit margin was 5.7% for the six months ended June 30, 2017, compared to 6.1% for the same period in 2016. The decrease in gross profit margin for the Lifeboat Distribution segment was primarily caused by competitive pricing pressure and product mix. We operate in a competitive environment where the trend has been for gross profit margins to decline for the past several years. We attribute some of the decline to an increasing portion of our revenues being derived from the sale of licenses, maintenance and service agreements that are not associated with a physical product. While our gross profit margin has declined on these products, we have instituted operational efficiencies such as electronic ordering and distribution through the use of EDI and other automation that have increased our productivity and enabled us to maintain profitability. TechXtend segment gross profit margin for the six months ended June 30, 2017 was 12.0% compared to 10.0% for the same period 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, and lower incremental selling and administrative costs as a percentage of revenue, than smaller account sales.

Vendor rebates and discounts for the six months ended June 30, 2017 were $1.2 million compared to $1.0 million in the same quarter 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 six months ended June 30, 2017 increased $0.6 million or 6% to $9.8 million, compared to $9.2 million for the same period in 2016. The increase is primarily due to increased employee related expenses (salaries, and commissions) to support our growth. SG&A expenses were 4.6% of net sales for the six months ended June 30, 2017 and 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 SG&A expenses closely.

Income Taxes

For the six months ended June 30, 2017, the Company recorded a provision for income taxes of $1.2 million or 31.6% of income, compared to $1.3 million or 33.7% of income for the same period in 2016. The decrease in the effective tax rate is primarily due to the change in tax effects related to share based payments at settlement (or expiration) through the income statement due to the adoption of ASU 2016-09.

Liquidity and Capital Resources

Our cash and cash equivalents decreased by $3.8 million to $9.7 million at June 30, 2017 from $13.5 million at December 31, 2016. The decrease in cash was primarily due to lower cash from operating activities and related changes in working capital, and increased cash used in financing activities related to stock repurchases and dividends.

Net cash provided by operating activities for the six months ended June 30, 2017 was $0.2 million, comprised of net income adjusted for non-cash items of $3.4 million, offset by cash used in changes in operating assets and liabilities of $3.2 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 and inventory, 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. Our accounts receivable – long term increased by approximately $6.2 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 sales proceeds will be collected over future periods.

In the six months ended June 30, 2017, net cash used in investing activities was $0.3 million, compared to $0.2 million in the same quarter in prior year.

Net cash used in financing activities for the six months ended June 30, 2017 of $3.9 million was comprised of $1.5 million of dividend payments on our Common Stock, and $2.4 million for the stock repurchases.

On January 4, 2013. the Company entered into a $10,000,000 revolving credit facility (the “Credit Facility”) with Citibank, N.A. (“Citibank”) pursuant to a Business Loan Agreement, Promissory Note (the “Note”), Commercial Security Agreements and Commercial Pledge Agreement (the “Pledge Agreement”). The Credit Facility, which is intended to be used for business and working capital purposes, including financing of larger extended payment terms sales transactions which may become a more significant portion of the Company’s net sales. On December 18, 2015, the Company signed an extension to this agreement, which extended the maturity date to January 31, 2019 with all other terms remaining the same (See Note 8 in the Notes to our Condensed Consolidated Financial Statements). As of June 30, 2017, there were no borrowings outstanding on the Credit Facility.

We anticipate that our working capital needs will increase as we invest in the growth of our business. We believe that the funds held in cash and cash equivalents and our unused borrowings under our credit facility will be sufficient to fund our working capital and cash requirements for at least the next 12 months. Specifically, in July 2017 we expended approximately $8.0 million as a prepayment, to a new vendor to be applied against future purchases for this new vendor, in part financed from borrowings under our credit facility

Contractual Obligations as of June 30, 2017 are summarized as follows: (000's)

Payment due by Period	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Operating Leases obligations (1)	$ 4,526	$ 548	$ 1,339	$ 831	$ 1,808
Total Contractual Obligations	$ 4,526	$ 548	$ 1,339	$ 831	$ 1,808

(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 June 30, 2017, the Company has no borrowings outstanding under lines of credit and no commitments relating to standby letters of credit, and has no standby repurchase obligations or other commercial commitments (see Note 8 in the Notes to our Consolidated Financial Statements).

Foreign Exchange

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

Off-Balance Sheet Arrangements

As of June 30, 2017, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

In addition to its activities in the United States, 11.0% of the Company sales during the six months ended June 30, 2017 were generated by its subsidiaries in Canada and Europe. We are subject to general risks attendant to the conduct

of business in Canada and Europe, including economic uncertainties and foreign government regulations. In addition, the Company's international business is subject to changes in demand or pricing resulting from fluctuations in currency exchange rates or other factors. See "Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Foreign Exchange."

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation of the effectiveness of the design and operation of the Company's "disclosure controls and procedures", as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of various members of our management, including our Company's President, Chairman of the Board 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 Securities and Exchange Commission's rules and forms and is accumulated and communicated to the Company's management, including the

Company's Chief Executive Officer , Chief Financial Officer and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) under the Exchange Act, that occurred during the quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

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

The table below sets forth the repurchase of Common Stock by the Company and its affiliated purchasers during the second quarter of 2017.

ISSUER PURCHASE OF EQUITY SECURITIES

Period	Total Number of Shares Purchased		Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Average Price Paid Per Share (3)	Maximum Number of Shares That May Yet Be Purhased Under the Plans or Programs (4)(5)(6)
April 1, 2017- April 30, 2017	26,000		$ 18.77	26,000	$ 18.77	568,433
May 1, 2017- May 31, 2017	8,254	(1)	$ 19.65	—	$ —	568,433
June 1, 2017- June 30, 2017	—		$ —	—	$ —	568,433
Total	34,254		$ 18.98	26,000	$ 18.77	568,433

(1) Includes 8,254 shares surrendered to the Company by employees to satisfy individual tax withholding obligations upon vesting of previously issued shares of Restricted Stock. These shares are not included in the Common Stock repurchase program referred to in footnote (4) below.

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

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

(4) On December 3, 2014, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. On February 2, 2017, the Board of Directors of the Company approved an increase of 500,000 shares of Common Stock to the number of shares of Common Stock available for repurchase under its repurchase plans. The Company expects to purchase shares of its Common Stock from time to time in the market or otherwise subject to market conditions.

The Common Stock repurchase program does not have an expiration date.

(5) On July 27, 2016, the Board of Directors of the Company approved, and on September 1, 2016, the Company entered into, a written purchase plan intended to comply with the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "September Plan"). Purchases involving shares of the Company's Common Stock under the September Plan may take place commencing September 1, 2016, and the was in effect until February 28, 2017. Pursuant to the Plan, the Company's broker shall effect purchases of up to an aggregate of 325,000 shares of Common Stock.

(6) On February 2, 2017, the Board of Directors of the Company approved, and on March 1, 2017, the Company entered into, a written purchase plan intended to comply with the requirements of Rule 10b5-1 under the Securities

Exchange Act of 1934, as amended (the "Plan"). Purchases involving shares of the Company's Common Stock under the Plan may take place commencing March 1, 2017, and the Plan is intended to be in effect until September 30, 2017. Pursuant to the Plan, the Company's broker shall effect purchases of up to an aggregate of 600,000 shares of Common Stock.

Item 6. Exhibits

(a) Exhibits

31.1 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Simon F. Nynens, the Chairman of the Board, President and Chief Executive Officer (principal executive officer) of the Company.

31.2 Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, of Kevin T. Scull, the Vice President and Chief Accounting Officer (principal accounting officer) of the Company.

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

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Simon F. Nynens, the Chairman of the Board, President and Chief Executive Officer (principal executive officer) of the Company.

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

32.3 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Michael Vesey, the Vice President and Chief Financial Officer (principal financial officer) of the Company.

101 The following financial information from Wayside Technology Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed with the SEC on August 7, 2017, formatted in XBRL (Extensible Business Reporting Language) includes: (1) Condensed Consolidated Balance Sheets, (2) Condensed Consolidated Statements of Earnings, (3) Condensed Consolidated Statements of Stockholders' Equity, (4) Condensed Consolidated Statements of Comprehensive Income, (5) Condensed Consolidated Statements of Cash Flows, and (6) the Notes to the Unaudited Condensed Consolidated Financial Statements.

SIGNATURES

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

WAYSIDE TECHNOLOGY GROUP, INC

8/7/2017	By:	/s/ Simon F. Nynens
Date		Simon F. Nynens, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
8/7/2017	By:	/s/ Michael Vesey
Date		Michael Vesey, Vice President and Chief Financial Officer (Principal Financial Officer)
8/7//2017	By:	/s/ Kevin T. Scull
Date		Kevin T. Scull, Vice President and Chief Accounting Officer (Principal Accounting Officer)