

Edgar Filing: SYSTEMAX INC - Form 10-Q

SYSTEMAX INC
Form 10-Q
November 05, 2013
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-13792

Systemax Inc.
(Exact name of registrant as specified in its charter)

Delaware 11-3262067
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

11 Harbor Park Drive
Port Washington, New York 11050
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (516) 608-7000

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

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

Edgar Filing: SYSTEMAX INC - Form 10-Q

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

The number of shares outstanding of the registrant's Common Stock as of October 29, 2013 was 36,718,245.

TABLE OF CONTENTS

Available Information

Part I Financial Information

Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
Item 4. <u>Controls and Procedures</u>	20

Part II Other Information

Item 1. <u>Legal Proceedings</u>	21
Item 6. <u>Exhibits</u>	22
<u>Signatures</u>	23

Available Information

We maintain an internet web site at www.systemax.com. We file reports with the Securities and Exchange Commission ("SEC") and make available free of charge on or through this website our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, including all amendments to those reports. These are available as soon as is reasonably practicable after they are filed with the SEC. All reports mentioned above are also available from the SEC's website (www.sec.gov). The information on our website is not part of this or any other report we file with, or furnish to, the SEC.

Our Board of Directors has adopted the following corporate governance documents with respect to the Company (the "Corporate Governance Documents"):

- Corporate Ethics Policy for officers, directors and employees
- Charter for the Audit Committee of the Board of Directors
- Charter for the Compensation Committee of the Board of Directors
- Charter for the Nominating/Corporate Governance Committee of the Board of Directors
- Corporate Governance Guidelines and Principles

In accordance with the corporate governance rules of the New York Stock Exchange, each of the Corporate Governance Documents is available on our Company web site, www.systemax.com.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Systemax Inc.

Condensed Consolidated Balance Sheets

(In millions)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS:		
Current assets:		
Cash	\$ 173.3	\$ 150.7
Accounts receivable, net	287.7	297.4
Inventories	284.6	367.2
Prepaid expenses and other current assets	28.9	23.5
Deferred income taxes	13.3	13.6
Total current assets	787.8	852.4
Property, plant and equipment, net	59.3	63.0
Deferred income taxes	29.5	30.2
Goodwill and intangibles	10.2	11.1
Other assets	5.2	5.6
Total assets	\$ 892.0	\$ 962.3
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 346.4	\$ 405.3
Accrued expenses and other current liabilities	93.6	83.5
Current portion of long-term debt	2.5	2.8
Total current liabilities	442.5	491.6
Long-term debt	3.5	5.3
Other liabilities	22.5	19.1
Total liabilities	468.5	516.0
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	-	-
Common stock	0.4	0.4
Additional paid-in capital	183.2	183.0
Treasury stock	(26.6)	(28.6)
Retained earnings	266.5	290.5
Accumulated other comprehensive income	-	1.0
Total shareholders' equity	423.5	446.3

Edgar Filing: SYSTEMAX INC - Form 10-Q

Total liabilities and shareholders' equity	\$ 892.0	\$ 962.3
--	----------	----------

See Notes to Condensed Consolidated Financial Statements.

Edgar Filing: SYSTEMAX INC - Form 10-Q

Systemax Inc.

Condensed Consolidated Statements of Operations (Unaudited)

(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales	\$791.8	\$847.0	2,478.3	2,609.4
Cost of sales	674.1	728.0	2,120.9	2,241.7
Gross profit	117.7	119.0	357.4	367.7
Selling, general & administrative expenses	115.7	118.9	360.2	354.7
Special charges, net	5.8	2.0	16.5	6.1
Operating income (loss) from continuing operations	(3.8)	(1.9)	(19.3)	6.9
Foreign currency exchange loss (gain)	(0.9)	(0.1)	(0.5)	0.9
Interest and other income, net	-	(0.1)	(0.3)	(0.4)
Interest expense	0.3	0.4	1.0	1.3
Income (loss) from continuing operations before income taxes	(3.2)	(2.1)	(19.5)	5.1
Provision for (benefit from) income taxes	8.4	(16.1)	4.5	(13.9)
Income (loss) from continuing operations	(11.6)	14.0	(24.0)	19.0
Loss from discontinued operations, net of tax	-	-	-	(0.2)
Net income (loss)	\$(11.6)	\$14.0	(24.0)	18.8
Income (loss) from continuing operations per common share:				
Basic	\$(0.31)	\$0.38	(0.65)	0.51
Diluted	\$(0.31)	\$0.38	(0.65)	0.51
Net income (loss) per common share:				
Basic	\$(0.31)	\$0.38	(0.65)	0.51
Diluted	\$(0.31)	\$0.38	(0.65)	0.51
Weighted average shares outstanding:				
Basic	37.0	37.0	37.0	36.9
Diluted	37.0	37.0	37.0	37.0

See Notes to Condensed Consolidated Financial Statements.

Systemax Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In millions)

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income (loss)	\$(11.6)	\$14.0	(24.0)	18.8
Other comprehensive income (loss):				
Foreign currency translation	7.0	3.9	(1.0)	4.0
Total comprehensive income (loss)	\$(4.6)	\$17.9	(25.0)	22.8

See Notes to Condensed Consolidated Financial Statements.

6

Systemax Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Nine Months Ended September 30, 2013 2012	
Cash flows from operating activities:		
Income (loss) from continuing operations	\$(24.0)	\$19.0
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	14.5	13.9
Asset impairment	0.8	0.0
Provision (benefit) for deferred income taxes	1.2	(15.9)
Provision for returns and doubtful accounts	2.5	3.7
Compensation expense related to equity compensation plans	2.4	3.4
Excess tax benefit from exercises of stock options	(0.1)	(0.5)
Loss on dispositions and abandonment	0.1	0.0
Changes in operating assets and liabilities:		
Accounts receivable	9.0	(2.3)
Inventories	82.7	62.2
Prepaid expenses and other current assets	(6.0)	(8.4)
Accounts payable, accrued expenses and other current liabilities	(47.1)	(27.9)
Net cash provided by operating activities from continuing operations	36.0	47.2
Net cash used in operating activities from discontinued operations	0.0	(0.4)
Net cash provided by operating activities	36.0	46.8
Cash flows from investing activities:		
Purchases of property, plant and equipment	(10.2)	(11.3)
Proceeds from disposals of property, plant and equipment	0.3	0.0
Net cash used in investing activities	(9.9)	(11.3)
Cash flows from financing activities:		
Repayments of capital lease obligations	(2.1)	(2.0)
Proceeds from issuance of common stock	0.1	0.3
Excess tax benefit from exercises of stock options	0.1	0.5
Net cash used in financing activities	(1.9)	(1.2)
Effects of exchange rates on cash	(1.6)	1.9
Net increase in cash	22.6	36.2
Cash – beginning of period	150.7	97.3
Cash – end of period	\$173.3	\$133.5
Supplemental disclosures of non-cash investing and financing activities:		
Acquisitions of equipment through capital leases	\$-	\$1.2

See Notes to Condensed Consolidated Financial Statements.

Systemax Inc.

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(In millions)

	Common Stock Number of Shares Outstanding	Amount	Additional Paid-in Capital	Treasury Stock, At Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
Balances, January 1, 2013	36,555	\$ 0.4	\$ 183.0	\$ (28.6)	\$ 290.5	\$ 1.0
Stock-based compensation expense			2.4			
Issuance of restricted stock	130		(1.7)	1.6		
Exercise of stock options	33		(0.3)	0.4		
Surrender of fully vested options			(0.2)			
Change in cumulative translation adjustment						(1.0)
Net loss					(24.0)	
Balances, September 30, 2013	36,718	\$ 0.4	\$ 183.2	\$ (26.6)	\$ 266.5	\$ -

See Notes to Condensed Consolidated Financial Statements.

8

Systemax Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements of the Company and its wholly-owned subsidiaries are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America are not required in these interim financial statements and have been condensed or omitted. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

The Company exited the Software Solutions segment in June 2009. One customer remained being served by the Company until the second quarter of 2012. The termination of this customer has resulted in all prior period results for this business segment being classified as discontinued operations. Balance sheet amounts reflecting this change are not shown due to their immateriality.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial position of the Company as of September 30, 2013 and the results of operations for the three and nine month periods ended September 30, 2013 and 2012, statements of comprehensive income for the three and nine month periods ended September 30, 2013 and 2012, cash flows for the nine month periods ended September 30, 2013 and 2012 and changes in shareholders' equity for the nine months period ended September 30, 2013. The December 31, 2012 condensed consolidated balance sheet has been derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2012 and for the year then ended included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. The results for the nine month period ended September 30, 2013 are not necessarily indicative of the results for the entire year.

Systemax manages its business and reports using a 52-53 week fiscal year that ends at midnight on the Saturday closest to December 31. For clarity of presentation herein, fiscal years and quarters are referred to as if they ended on the traditional calendar month. The actual fiscal second quarter ended on September 28, 2013. The third quarters of both 2013 and 2012 included 13 weeks and the first nine months of both 2013 and 2012 included 39 weeks.

2. Net Income per Common Share

Net income per common share - basic was calculated based upon the weighted average number of common shares outstanding during the respective periods presented using the two class method of computing earnings per share. The two class method was used as the Company has outstanding restricted stock with rights to dividend participation for unvested shares. Net income per common share - diluted was calculated based upon the weighted average number of common shares outstanding and included the equivalent shares for dilutive options and restricted stock awards outstanding during the respective periods, including unvested options. The dilutive effect of outstanding options and restricted stock issued by the Company is reflected in net income per share - diluted using the treasury stock method. Under the treasury stock method, options will only have a dilutive effect when the average market price of common stock during the period exceeds the exercise price of the options. The weighted average number of stock

options outstanding included in the computation of diluted earnings (loss) per share was zero shares and a de minimus number of shares for the three months ended September 30, 2013 and 2012, respectively, and zero shares and 0.1 million shares for the nine months ended September 30, 2013 and 2012, respectively. The weighted average number of restricted stock awards included in the computation of diluted earnings (loss) per share was zero shares and a de minimus number of shares for the three months ended September 30, 2013 and 2012, respectively, and zero shares and 0.1 million shares for the nine months ended September 30, 2013 and 2012, respectively. The weighted average number of stock options excluded from the computation of diluted earnings (loss) per share was 1.1 million and 1.5 million shares for the three months ended September 30, 2013 and 2012, respectively, and 1.2 million and 1.0 million shares for the nine months ended September 30, 2013 and 2012, respectively, due to their antidilutive effect. The weighted average number of restricted awards outstanding excluded from the computation of diluted earnings (loss) per share was a de minimus number of shares for the three months ended September 30, 2013 and 2012, respectively, and 0.1 million and zero shares for the nine months ended September 30, 2013 and 2012, respectively, due to their antidilutive effect.

3. Credit Facilities and Long Term Debt

The Company maintains a \$125.0 million (which may be increased to \$200.0 million, subject to certain conditions) secured revolving credit agreement with a group of financial institutions which provides for borrowings in the United States. The credit facility has a five year term and expires in October 27, 2015. Availability is subject to a borrowing base formula that takes into account eligible receivables and eligible inventory. Borrowings are secured by substantially all of the Company's assets, including accounts receivable, inventory and certain other assets, subject to limited exceptions. The credit agreement contains certain operating, financial and other covenants, including limits on annual levels of capital expenditures, availability tests related to payments of dividends and stock repurchases and fixed charge coverage tests related to acquisitions; certain of these covenants were amended effective September 28, 2013 to provide the Company greater flexibility. The borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and up to 40% of qualified inventories. The interest rate under this facility is computed at applicable market rates based on LIBOR or the Prime Rate, plus an applicable margin. The revolving credit agreement requires that a minimum level of availability be maintained. If such availability is not maintained, the Company will be required to maintain a fixed charge coverage ratio (as defined). The applicable margin varies based on borrowing base availability. As of September 30, 2013, eligible collateral under the agreement was \$110.5 million, total availability was \$105.6 million, total outstanding letters of credit were \$4.9 million and there were no outstanding borrowings. The Company was in compliance with all of the covenants under this facility, as amended, as of September 30, 2013.

The Company (through a subsidiary) has an outstanding Bond financing with the Development Authority of Jefferson, Georgia (the "Authority"). The Bonds were issued by the Authority and purchased by GE Government Finance Inc., and mature on October 1, 2018. The proceeds from the Bond were used to finance capital equipment purchased for the Company's distribution facility located in Jefferson, Georgia. The purchase and installation of the equipment for the facility was completed by December 31, 2011. Pursuant to the transaction, the Company transferred to the Authority, for consideration consisting of the Bonds proceeds, ownership of the equipment and the Authority leased the equipment to the Company's subsidiary pursuant to a capital equipment lease expiring October 1, 2018. Under the capital equipment lease the Company has the right to acquire ownership of the equipment at any time for a purchase price sufficient to pay off all principal and interest on the Bonds, plus \$1.00. As of September 30, 2013 there was approximately \$4.6 million outstanding against this financing facility.

The Company has outstanding capital lease obligations of \$1.4 million at September 30, 2013.

4. Special Charges, Net

The Company's Industrial Products segment has recorded reorganization costs related to the 2012 closing and relocation of a small distribution center to a new, significantly larger distribution and call center. The balance of the restructuring reserve is included in the Condensed Consolidated Balance Sheet within accrued expenses and other current liabilities and other liabilities. The Company does not anticipate incurring any additional material costs related to this closing and relocation.

The following table details the associated liabilities related to the Industrial Products special charges (in millions):

	Workforce reductions and Personnel Costs	Other Exit Costs	Total
Balance January 1, 2013	\$ 0.2	\$ 1.6	\$ 1.8
Charged to expense/(benefit)	0.1	(0.1)	0.0
Paid or otherwise settled	(0.1)	(0.1)	(0.2)

Balance September 30, 2013 \$ 0.2 \$ 1.4 \$ 1.6

The Company's Technology Products segment incurred special charges in the third quarter of 2013 of approximately \$5.8 million. These charges included \$3.8 million for lease termination costs (present value of contractual gross lease payments net of estimated sublease rental income, or settlement amount) and \$1.5 million for fixed asset write offs related to the closing of underperforming retail stores, \$0.2 million in European workforce reduction costs, \$0.2 million of legal and professional fees related to the previously disclosed completed investigation and settlement with a former officer and director and \$0.1 million in continuing recruitment costs of the European shared services center.

For the nine month period ended September 30, 2013, the Technology Products segment incurred approximately \$16.5 million of special charges. These charges included approximately \$4.8 million for lease termination costs and \$2.0 million for fixed asset write offs related to the closing of underperforming retail stores, \$4.5 million in workforce reductions and other exit costs related to the shared services center implementation and other European workforce reductions, \$2.2 million of workforce reduction charges for senior management changes in the North American operations, \$1.8 million related to start up costs of the European shared services center and \$0.1 million in continuing recruitment costs of the European shared services center, \$0.6 million for reserve adjustments related to the facility closing and exit from the PC manufacturing business and \$0.5 million of additional legal and professional fees related to the previously disclosed completed investigation and settlement with a former officer and director. The balance of the workforce reduction costs and retail store closing liabilities are included in the Condensed Consolidated Balance Sheet within accrued expenses and other current liabilities and other non-current liabilities.

The following table details the associated liabilities related to the Technology Products segment special charges (in millions):

	Workforce reductions and Personnel Costs	Other Exit Costs	Total
Balance January 1, 2013	\$ 4.3	\$ -	\$4.3
Charged to expense	6.3	6.0	12.3
Paid or otherwise settled	(3.4)	(0.2)	(3.6)
Balance September 30, 2013	\$ 7.2	\$ 5.8	\$13.0

5. Segment Information

Systemax is primarily a direct marketer of brand name and private label products. Our operations are organized into two reportable business segments – Technology Products and Industrial Products.

Our Technology Products segment sells computers, computer supplies and consumer electronics which are marketed in North America, Puerto Rico and Europe. Most of these products are manufactured by other companies; however, we do offer a selection of products that are manufactured for us to our own design and marketed on a private label basis.

Our Industrial Products segment sells a wide array of industrial products and supplies which are marketed in North America. Most of these products are manufactured by other companies. Some products are manufactured for us to our own design and marketed on a private label basis.

The Company's chief operating decision-maker is the Company's Chief Executive Officer. The Company evaluates segment performance based on operating income, before net interest, foreign exchange gains and losses, special charges, internal management fees and income taxes. Corporate costs not identified with the disclosed segments are grouped as "Corporate and other expenses".

The chief operating decision-maker reviews assets and makes significant capital expenditure decisions for the Company on a consolidated basis only. The accounting policies of the segments are the same as those of the Company.

The Company's Industrial Products and Technology Products segments sell dissimilar products. Industrial products are generally higher in price, lower in volume and higher in product margin. Technology products are generally higher in volume, lower in price and lower in product margin. This results in higher operating margin for the Industrial Products segment. Each segment incurs specifically identifiable selling, general and administrative expenses, with the selling, general and administrative expenses for the Industrial Products segment being higher as a percentage of sales than those of the Technology Products segment primarily, as a result of the Industrial Products segment spending more on advertising and promotion than the Technology Products segment. Additionally, the Industrial Products segment's vendors generally do not provide funding to offset its marketing expenses.

Financial information relating to the Company's operations by reportable segment was as follows (in millions):

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012		2012	
Net sales:				
Technology Products	\$665.0	\$735.4	\$2,124.3	\$2,302.2
Industrial Products	125.7	110.4	349.9	303.6
Corporate and Other	1.1	1.2	4.1	3.6
Consolidated	\$791.8	\$847.0	\$2,478.3	\$2,609.4
Operating income (loss) from continuing operations:				
Technology Products	\$(9.9)	\$(3.8)	(33.4)	1.6
Industrial Products	10.8	7.6	30.4	22.9
Corporate and Other	(4.7)	(5.7)	(16.3)	(17.6)
Consolidated	\$(3.8)	\$(1.9)	(19.3)	6.9

Financial information relating to the Company's operations by geographic area was as follows (in millions):

Edgar Filing: SYSTEMAX INC - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales:				
United States	\$491.0	\$532.8	\$1,528.3	\$1,619.1
United Kingdom	114.3	124.9	352.0	373.2
Other Europe	138.4	139.0	448.9	463.7
Other North America	48.1	50.3	149.1	153.4
Consolidated	\$791.8	\$847.0	\$2,478.3	\$2,609.4

Net sales are attributed to countries based on the location of the selling subsidiary.

Financial information relating to the Company's entity-wide product category sales was as follows (in millions):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	%	2012	%	2013	%	2012	%
Product Category:								
Computers	\$246.5	31.1 %	\$251.5	29.7 %	\$758.9	30.6 %	\$751.2	28.8 %
Computer accessories & software	205.6	26.0 %	234.4	27.7 %	662.3	26.7 %	731.3	28.0 %
Industrial products	125.7	15.9 %	110.4	13.0 %	349.9	14.1 %	303.6	11.6 %
Consumer electronics	107.7	13.6 %	129.4	15.3 %	361.0	14.6 %	443.7	17.0 %
Computer components	83.3	10.5 %	93.1	11.0 %	277.1	11.2 %	300.9	11.6 %
Other	23.0	2.9 %	28.2	3.3 %	69.1	2.8 %	78.7	3.0 %
Consolidated	\$791.8	100 %	\$847.0	100 %	\$2,478.3	100 %	\$2,609.4	100 %

6. Fair Value Measurements

Financial instruments consist primarily of investments in cash, trade accounts receivable, debt and accounts payable. The Company estimates the fair value of financial instruments based on interest rates available to the Company and by comparison to quoted market prices. At September 30, 2013 and 2012, the carrying amounts of cash, accounts receivable and accounts payable are considered to be representative of their respective fair values due to their short-term nature. The Company's debt is considered to be representative of its fair value because of its variable interest rate.

The fair value of goodwill and non-amortizing intangibles is measured on a non-recurring basis in connection with the Company's annual impairment testing. For goodwill, the fair value of the reporting unit to which the goodwill has been assigned is determined using a discounted cash flow model. A discounted cash flow model is also used to determine fair value of indefinite-lived intangibles using projected cash flows of the intangible. Unobservable inputs related to these discounted cash flow models include projected sales growth, same store sales growth, gross margin percentages, new business opportunities, working capital requirements, capital expenditures and growth in selling, general and administrative expense and are classified within Level 3 of the valuation hierarchy.

7. Legal Proceedings

The Company and its subsidiaries are involved in various lawsuits, claims, investigations and proceedings, including commercial, employment, consumer, personal injury and health and safety law matters, which are being handled and defended in the ordinary course of business. In addition, the Company is subject to various assertions, claims, proceedings and requests for indemnification concerning intellectual property matters, including patent infringement suits involving technologies that are generally used in e-commerce or that are incorporated in a broad spectrum of products the Company sells. The Company is also audited by (or has initiated voluntary disclosure agreements with) numerous governmental agencies in various countries, including U.S. Federal and state authorities, concerning potential income tax, sales tax and unclaimed property liabilities. These matters are in various stages of investigation, negotiation and/or litigation, and are being vigorously defended. In this regard, the state of Pennsylvania has claimed that certain of the Company's consumer electronics e-commerce sales are subject to sales tax in Pennsylvania. The Company intends to vigorously defend this matter and believes it has strong defenses. The Company is also being audited by an entity representing 45 states seeking recovery of "unclaimed property" which related liability has been included in the Condensed Consolidated Balance Sheet within accounts payable. The Company is complying with the audit and is providing requested information.

Although the Company does not expect, based on currently available information, that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition or results of operations, the ultimate outcome is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. The Company routinely assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable and estimable.

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

Forward Looking Statements

This report contains forward looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Additional written or oral forward looking statements may be made by the Company from time to time, in filings with the Securities and Exchange Commission or otherwise. Statements contained in this report that are not historical facts are forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements may include, but are not limited to, projections of revenue, income or loss and capital expenditures, statements regarding future operations, financing needs, compliance with financial covenants in loan agreements, plans for acquisition or sale of assets or businesses and consolidation of operations of newly acquired businesses, and plans relating to products or services of the Company, assessments of materiality, predictions of future events and the effects of pending and possible litigation, as well as assumptions relating to the foregoing. In addition, when used in this discussion, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and variations thereof and similar expressions are intended to identify forward looking statements.

Forward-looking statements in this report are based on the Company's beliefs and expectations as of the date of this report and are subject to risks and uncertainties which may have a significant impact on the Company's business, operating results or financial condition. Investors are cautioned that these forward-looking statements are inherently uncertain. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein. Statements in this report, particularly in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Notes to Condensed Consolidated Financial Statements, describe certain factors, among others, that could contribute to or cause such differences.

Readers are cautioned not to place undue reliance on any forward looking statements contained in this report, which speak only as of the date of this report. We undertake no obligation to publicly release the result of any revisions to these forward looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unexpected events.

Overview

Systemax is primarily a direct marketer of brand name and private label products. Our operations are organized in two reportable business segments – Technology Products and Industrial Products.

Our Technology Products segment sells computers, computer supplies and consumer electronics which are marketed in North America, Puerto Rico and Europe. Most of these products are manufactured by other companies; however, we do offer a selection of products that are manufactured for us to our own design and marketed on a private label basis. For the three and nine month periods ended September 30, 2013 and 2012, Technology products accounted for 84% and 87% of our net sales, respectively.

Our Industrial Products segment sells a wide array of industrial products and supplies which are marketed in North America. Most of these products are manufactured by other companies. Some products are manufactured for us to our own design and marketed on a private label basis. For the three and nine month periods ended September 30, 2013 and 2012, Industrial products accounted for 16% and 13% of our net sales, respectively. In both of our Technology Products and Industrial Products segments, we offer our customers a broad selection of products, prompt order fulfillment and extensive customer service.

Our Industrial Products and Technology Products segments sell dissimilar products. Industrial products are generally higher in price, lower in volume and higher in product margin. Technology products are generally higher in volume, lower in price and lower in product margin. This results in higher operating margin for the Industrial Products segment. Each segment incurs specifically identifiable selling, general and administrative expenses, with the selling, general and administrative expenses for the Industrial Products segment being higher as a percentage of sales than those of the Technology Products segment primarily, as a result of the Industrial Products segment spending more on advertising and promotion than the Technology Products segment. Additionally, the Industrial Products segment's vendors generally do not provide funding to offset its marketing expenses.

Edgar Filing: SYSTEMAX INC - Form 10-Q

The market for computer products and consumer electronics is subject to intense price competition and is characterized by narrow gross profit margins. The North American industrial products market is highly fragmented and we compete against multiple distribution channels. Distribution is working capital intensive, requiring us to incur significant costs associated with the warehousing of many products, including the costs of maintaining inventory, leasing warehouse space, inventory management systems, and employing personnel to perform the associated tasks. We supplement our on-hand product availability by maintaining relationships with major distributors and manufacturers, utilizing a combination of stock and drop-shipment fulfillment.

Historically, the primary component of our operating expenses has been employee related costs, which includes items such as wages, commissions, bonuses, employee benefits and stock option expenses. We continually assess our operations to ensure that they are efficient, aligned with market conditions and responsive to customer needs.

The discussion of our results of operations and financial condition that follows provides information that will assist in understanding our financial statements, the factors that we believe may affect our future results and financial condition as well as information about how certain accounting principles and estimates affect the consolidated financial statements. This discussion should be read in conjunction with the condensed consolidated financial statements included herein and in conjunction with the audited financial statements as of December 31, 2012 and the other information provided in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

In the discussion of our results of operations we refer to business to business sales, consumer channel sales and period to period constant currency comparisons. Business to business sales are sales made direct to other businesses through managed business relationships, outbound call centers and extranets. Sales in the Industrial Products segment and Corporate and other are considered to be business to business sales. Consumer channel sales are sales from retail stores, consumer websites, inbound call centers and television shopping channels. Constant currency refers to the adjustment of the results of our foreign operations to exclude the effects of period to period fluctuations in currency exchange rates.

Recent developments

In August 2013 the Company's Board of Directors approved the expansion of the administrative and back office services that its recently opened European shared services center will offer to certain of the Company's operating subsidiaries in Europe. As a result of this expansion the Company anticipates incurring workforce reduction and exit costs and startup costs of approximately \$11.0 million during the last quarter of 2013 and through the end of 2014. This amount includes approximately \$9.0 million for workforce reduction costs and approximately \$2.0 million in other tax, legal and recruiting fees. The Company anticipates that all of these costs will result in future cash expenditures which will be incurred during the last quarter of 2013 and through the end of 2014. Not all of the components of this expansion initiative are finalized, and the actual costs and specific timing of the costs could change from the Company's estimate as the scope of the initiative and underlying assumptions may change.

The Company exited the PC manufacturing business during the fourth quarter of 2012 after conducting an evaluation of its operations and concluding that the Company's North American technology results would be enhanced by exiting the computer manufacturing business.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and revenues and expenses during the period. Significant accounting policies employed by the Company, including the use of estimates, were presented in the Notes to Consolidated Financial Statements of the Company's 2012 Annual Report on Form 10-K.

Critical accounting policies are those that are most important to the presentation of our financial condition and results of operations, require management's most difficult, subjective and complex judgments, and involve uncertainties. The accounting policies that have been identified as critical to our business operations and understanding the results of operations pertain to revenue recognition; accounts receivable and allowance for doubtful accounts; inventories; goodwill and intangible assets; long-lived assets; accruals; income taxes; and special charges. The application of each of these critical accounting policies and estimates was discussed in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012. There have been no significant changes in the application of critical accounting policies or estimates during 2013. Management believes that full consideration has been given to all relevant circumstances that we may be subject to, and the condensed consolidated financial statements of the Company accurately reflect management's best estimate of the consolidated results of operations, financial position and cash flows of the Company for the periods presented. Because of the uncertainty in these estimates, actual results could differ from estimates used in applying the critical accounting policies. We are not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect the Company's financial condition or results of operations.

Recent Accounting Pronouncements

Public companies in the United States are subject to the accounting and reporting requirements of various authorities, including the Financial Accounting Standards Board ("FASB") and the Securities and Exchange Commission ("SEC"). These authorities issue numerous pronouncements, most of which are not applicable to the Company's current or reasonably foreseeable operating structure. There are no new authoritative pronouncements that management believes are relevant to the Company's current operation.

Results of Operations

Three and Nine Months Ended September 30, 2013 compared to the Three and Nine Months Ended September 30, 2012

Key Performance Indicators* (in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2013	2012	% Change	2013	2012	% Change	
Net sales by segment:							
Technology Products	\$665.0	\$735.4	(9.6)%	\$2,124.3	\$2,302.2	(7.7)%	
Industrial Products	125.7	110.4	13.9 %	349.9	303.6	15.3 %	
Corporate and other	1.1	1.2	(8.3)%	4.1	3.6	13.9 %	
Consolidated net sales	\$791.8	\$847.0	(6.5)%	\$2,478.3	\$2,609.4	(5.0)%	
Net sales by channel:							
Business to business	\$528.3	\$527.5	0.2 %	\$1,599.6	\$1,583.2	1.0 %	
Consumer	263.5	319.5	(17.5)%	878.7	1,026.2	(14.4)%	
Consolidated net sales	\$791.8	\$847.0	(6.5)%	\$2,478.3	\$2,609.4	(5.0)%	
Consolidated gross margin	14.9 %	14.0 %	0.9 %	14.4 %	14.1 %	0.3 %	
Consolidated SG&A costs**	\$121.5	\$120.9	0.5 %	\$376.7	\$360.8	4.4 %	
Consolidated SG&A costs** as a % of net sales	15.3 %	14.3 %	1.0 %	15.2 %	13.8 %	1.4 %	
Operating income (loss) from continuing operations by segment:**							
Technology Products	\$(9.9)	\$(3.8)	160.5 %	\$(33.4)	\$1.6	(2,187.5)%	
Industrial Products	10.8	7.6	42.1 %	30.4	22.9	32.8 %	
Corporate and other	(4.7)	(5.7)	(17.5)%	(16.3)	(17.6)	(7.4)%	
Consolidated operating income (loss)	\$(3.8)	\$(1.9)	100.0 %	\$(19.3)	\$6.9	(379.7)%	
Operating margin from continuing operations by segment**							
Technology Products	(1.5)%	(0.5)%	(1.0)%	(1.6)%	0.1 %	(1.7)%	
Industrial Products	8.6 %	6.9 %	1.7 %	8.7 %	7.5 %	1.2 %	
Consolidated operating margin from continuing operations	(0.5)%	(0.2)%	(0.3)%	(0.8)%	0.3 %	(1.1)%	
Income (loss) from continuing operations	\$(11.6)	\$14.0	(182.9)%	\$(24.0)	\$19.0	(226.3)%	
Net margin from continuing operations	(1.5)%	1.7 %	(3.2)%	(1.0)%	0.7 %	(1.7)%	

*excludes discontinued operations

**includes special charges, net (See Note 4 of Notes to Condensed Consolidated Financial Statements).

NET SALES

SEGMENTS

The Technology Products net sales decrease in the quarter and year to date is attributable to declines in all product category sales within North America and European markets. Within the quarter, North American sales declined due

to continued weakness in consumer channels sales, principally internet and retail sales and business to business sales declined, in part, due to our exit from the PC manufacturing business. Within Europe for the quarter, business to business sales were flat and consumer channel sales declined and year over year in Europe, business to business and consumer channel sales declined. Strong computer sales year to date in Europe were more than offset by weak sales of computer accessories and software, consumer electronics, and computer components in North America and Europe. On a constant currency basis, Technology Products net sales would have decreased 10.0% and 7.8%, respectively, for the three and nine month periods ended September 30, 2013.

The Industrial Products net sales increase is attributable to the addition of products offered and newer product categories on the Company's website, broadening of key product categories, continued growth in Canadian website sales and the addition of sales personnel.

CHANNELS

The modest growth in consolidated business to business channel sales was driven by the Industrial Products segment's 13.9% growth for the third quarter and 15.3% growth for the nine month period ended September 30, 2013 that resulted from the sales initiatives mentioned above. Tepid business demand in Technology Products offset the gain in Industrial Products. The Company is taking proactive measures to improve Technology Products business to business operations in Europe and North America, including making investments to strengthen and expand our sales teams, realigning certain sales offices and implementing cost reduction initiatives. On a constant currency basis, worldwide business to business channel sales declined 0.5% for the third quarter of 2013 and increased 1.0% for the nine month period ended September 30, 2013.

The decline in consolidated consumer-channel sales for the three and nine month periods ended September 30, 2013 resulted from weakness in internet and retail store sales, in North America and in consumer channel sales declines in Europe. On a constant currency basis, worldwide consumer channel sales decreased 17.3% and 14.3%, respectively, for the three and nine month periods ended September 30, 2013.

GROSS MARGIN

The increase in consolidated gross margin for the three and nine month periods ended September 30, 2013 was primarily due to increased Industrial Products sales, which are typically higher margin than Technology Products, contributing a larger percentage of gross profit dollars in 2013 as compared to the same period in 2012. Gross margin benefited from increased efficiencies from the Industrial Products distribution center opened in 2012 and additional improvement in freight processes. Technology Products margin benefited from gross margin expansion in Europe yet was partially offset by a small decline in North American Technology segment due to continued competitive pricing pressures. Gross margin is dependent on variables such as product mix, price protection and other sales incentives offered by the Company's vendors, competition, pricing strategy, co-operative advertising funds required to be classified as a reduction to cost of sales, freight discounting and other variables, any or all of which may result in fluctuations in gross margin.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The decrease in selling, general and administrative expenses for the three months ended September 30, 2013 as compared to the same period in 2012 was primarily the result of (i) decreases in salary and related costs in the North America Technology Products segment and corporate overhead departments offset by increases of sales and sales related personnel costs in the Industrial and European Technology Products segments, (ii) a temporary overlap of costs in Europe as we transition functions to our European shared services center, and (iii) decreased catalog and store advertising costs in the North America Technology and Industrial Products segments offset by increases in internet advertising expenses in the Industrial Products segment. Significant expense decreases for the three months ended September 30, 2013 include approximately \$0.9 million of decreased catalog and store advertising costs offset by decreased vendor co-operative funding, \$0.9 million of decreased salary and related expenses, \$0.5 million of decreased temporary labor costs, \$0.4 million of decreased credit card fees, and decreases in various other operating expenses offset by \$0.4 million of increased internet advertising expense.

The increase in selling, general and administrative expenses for the nine month period ended September 30, 2013 was primarily the result of increases in salary and related costs in the European Technology and Industrial Products segments as mentioned above, increased internet advertising costs in the Industrial Products segment, and increased rent and related costs in the European Technology segment. Significant expense increases for the nine month period ended September 30, 2013 include approximately \$3.6 million of increased salary and related expenses, \$3.5 million of increased internet advertising, increased rent and related costs of \$0.8 million, and decreased vendor co-operative funding of \$2.1 million offset by a decrease of approximately \$2.0 million of legal, professional and consulting expenses, \$1.6 million in catalog and store advertising costs and decreased credit card fees of \$1.2 million.

SPECIAL CHARGES, NET

The Company's Technology Products segment incurred special charges in the third quarter of 2013 of approximately \$3.8 million for lease termination costs and \$1.5 million for fixed asset write offs related to the closing of underperforming retail stores, approximately \$0.2 million in workforce reduction costs, approximately \$0.2 million of additional legal and professional fees related to the previously disclosed completed investigation and settlement with a former officer and director and approximately \$0.1 million in continuing recruitment costs of the European shared services center.

For the nine month period ended September 30, 2013, the Technology Products segment incurred approximately \$16.5 million of special charges. These included approximately \$4.8 million for lease termination costs and \$2.0 million for fixed asset write offs related to the closing of underperforming retail stores, approximately \$4.5 million of workforce reductions and other exit costs related to the shared services center implementation, \$2.2 million of workforce reduction charges for senior management changes, \$1.9 million of startup costs related to our European shared services center, \$0.6 million from reserve adjustments related to the facility closing and exit from the PC manufacturing business and approximately \$0.5 million of additional legal and professional fees related to the previously disclosed completed investigation and settlement with a former officer and director. For the nine months ended September 30, 2013, the Company's Industrial Products segment incurred minimal reserve adjustments related to the closing and relocation of a small distribution center to a new, significantly larger distribution and call center.

The Company's Industrial Products segment recorded no additional charges for the third quarter of 2012 and approximately \$2.2 million for the nine month period ended September 30, 2012 related to facility exit costs. The Company recorded severances and legal and professional fees related to a previously disclosed completed investigation and settlement with a former officer and director and costs associated with senior management staffing changes within the North America Technology Products segment of approximately \$0.3 million and \$2.1 million, respectively, for the three and nine month periods ended September 30, 2012 and \$0.1 million of severance costs within the European Technology Products segment. The Company also recorded \$1.7 million of patent settlements with non-practicing entities for the three and nine month periods ended September 30, 2012.

OPERATING MARGIN

The decline in Technology Products operating margin was due to the challenging consumer business in North America and Europe, a decline in business to business sales, reduced vendor co-operative funding in North America and lower sales and associated gross profit to cover fixed selling, general and administrative expenses.

The increase in Industrial Products operating margin was due to increased efficiencies from the recently opened distribution center and additional improvement in our freight results, the addition of products offered and newer product categories on the Company's website, broadening of key product categories, continued growth in Canadian website sales and the addition of sales personnel.

The decrease in Corporate and other expenses primarily resulted from savings in our overhead departments.

Consolidated operating margin was impacted by special charges of \$5.8 million and \$2.0 million for the three month periods ended September 30, 2013 and 2012, respectively and \$16.5 million and \$6.1 million for the nine month periods ended September 30, 2013 and 2012, respectively.

INTEREST EXPENSE

The interest expense decrease in 2013 is attributable to decreasing balances owed on the Recovery Zone Bond facility and outstanding capital lease obligations. Interest expense for 2012 is attributable to interest on the Recovery Zone bond facility and outstanding capital lease obligations.

INCOME TAXES

The Company's tax expense for the third quarter of 2013 was \$8.4 million compared to a \$16.1 million benefit in 2012. Tax expense for the nine months ended September 30, 2013 was \$4.5 million compared to a benefit of \$13.9 million in 2012. Tax expense in 2013 is driven by tax expense in the Company's foreign subsidiaries partially offset by the tax benefit of projected pretax losses in the United States. Additionally, the Company has approximately \$8.7 million in pretax losses for which no benefit is recognized as the result of those losses being in jurisdictions where deferred tax assets, including net operating losses, are subject to a full valuation allowance.

Tax benefit for both the three and nine month periods ended September 30, 2012 is primarily due to the reversal of approximately \$15.1 million of valuation allowances against deferred tax assets of a foreign subsidiary as demonstrated and projected profitable results in this subsidiary's operations caused the valuation allowances to be deemed no longer necessary at September 30, 2012.

Financial Condition, Liquidity and Capital Resources

Our primary liquidity needs are to support working capital requirements in our business, including working capital for the new distribution and call center for our Industrial Products segment, funding capital expenditures, including those related to our retail stores and information technology systems, repaying outstanding debt, funding special dividends declared by our Board of Directors and funding acquisitions. We rely principally upon operating cash flow to meet these needs. We believe that cash flow available from these sources and our availability under credit facilities will be sufficient to fund our working capital and other cash requirements for at least the next twelve months. We believe our current capital structure and cash resources are adequate for our internal growth initiatives. To the extent our growth initiatives expand, including major acquisitions, we would seek to raise additional capital. We believe that, if needed, we can access public or private funding alternatives to raise additional capital.

Selected liquidity data (in millions):

Edgar Filing: SYSTEMAX INC - Form 10-Q

	September 30, 2013	December 31, 2012	\$ Change
Cash	\$ 173.3	\$ 150.7	\$ 22.6
Accounts receivable, net	\$ 287.7	\$ 297.4	\$ (9.7)
Inventories	\$ 284.6	\$ 367.2	\$ (82.6)
Prepaid expenses and other current assets	\$ 28.9	\$ 23.5	\$ 5.4
Accounts payable	\$ 346.4	\$ 405.3	\$ (58.9)
Accrued expenses and other current liabilities	\$ 93.6	\$ 83.5	\$ 10.1
Current portion of long term debt	\$ 2.5	\$ 2.8	\$ (0.3)
Working capital	\$ 345.3	\$ 360.8	\$ (15.5)

Our working capital decreased primarily as a result of decreased inventory, accounts receivable and accounts payable balances partially offset by increased cash balances. We expect that future inventory and accounts receivable balances will continue to fluctuate with net sales and the mix of our net sales between consumer and business customers.

Edgar Filing: SYSTEMAX INC - Form 10-Q

Net cash provided by continuing operations was \$36.0 million resulting from changes in our working capital accounts, which provided \$38.6 million in cash compared to \$23.6 million in 2012, primarily the result of the fluctuation in our inventory, accounts receivable, accounts payable, accrued expenses and other current liabilities balances. Cash generated from net income from continuing operations adjusted by other non-cash items used \$2.6 million compared to \$23.6 million provided by these items in 2012, primarily the result of the release of deferred tax asset valuation allowances related to the Company's French subsidiary and higher net income in 2012. Net cash used in discontinued operations was \$0.0 million and \$0.4 million for the nine months ended September 30, 2013 and 2012, respectively.

Net cash used in investing activities during 2013 totaled \$9.9 million for furniture and fixtures, leasehold improvements, and computer equipment expenditures primarily for a new sales and administrative office in the United Kingdom, expenditures for the European shared services center, expenditures for our inventory and warehousing functions in Europe, information and communications systems hardware and software, and machinery and equipment used in Industrial Products new distribution and call center. Net cash used in investing activities in 2012 totaled \$11.3 million and were for fabrication materials, expenditures for a new retail store opening, upgrades and enhancements to our information and communications systems hardware and software, and expenditures related to the new distribution and call center.

Net cash used in financing activities during 2013 was \$1.9 million. We repaid approximately \$2.1 million of capital lease obligations and net proceeds and excess tax benefits from stock option exercises provided \$0.2 million. In 2012, we repaid approximately \$2.0 million of capital lease obligations. Net proceeds and excess tax benefits from stock option exercises provided approximately \$0.8 million of cash.

The Company maintains a \$125.0 million (which may be increased to \$200.0 million, subject to certain conditions) secured revolving credit agreement with a group of financial institutions which provides for borrowings in the United States and United Kingdom. The credit facility has a five year term and expires in October 2015. Availability is subject to a borrowing base formula that takes into account eligible receivables and eligible inventory. Borrowings are secured by substantially all of the Company's assets, including accounts receivable, inventory and certain other assets, subject to limited exceptions, including the exclusion of certain foreign assets from the collateral. The credit agreement contains certain operating, financial and other covenants, including limits on annual levels of capital expenditures, availability tests related to payments of dividends and stock repurchases and fixed charge coverage tests related to acquisitions; certain of these covenants were amended effective September 28, 2013 to provide the Company greater flexibility. The revolving credit agreement requires that a minimum level of availability be maintained. If such availability is not maintained, the Company will be required to maintain a fixed charge coverage ratio (as defined). The borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and up to 40% of qualified inventories. The interest rate under this facility is computed at applicable market rates based on LIBOR or the Prime Rate, plus an applicable margin. The applicable margin varies based on borrowing base availability. As of September 30, 2013, eligible collateral under this agreement was \$110.5 million, total availability was \$105.6 million, total outstanding letters of credit were \$4.9 million and there were no outstanding advances. The Company was in compliance with all of the covenants under this facility, as amended, as of September 30, 2013.

The Company (through a subsidiary) has an outstanding Bond financing with the Development Authority of Jefferson, Georgia (the "Authority"). The Bonds were issued by the Authority and purchased by GE Government Finance Inc., and mature on October 1, 2018. The proceeds from Bond were used to finance capital equipment purchased for the Company's distribution facility located in Jefferson, Georgia. The purchase and installation of the equipment for the facility was completed by December 31, 2011. Pursuant to the transaction, the Company transferred to the Authority, for consideration consisting of the Bonds proceeds, ownership of the equipment and the Authority leased the equipment to the Company's subsidiary pursuant to a capital equipment lease expiring October 1, 2018. Under the capital equipment lease the Company has the right to acquire ownership of the equipment at any time for a purchase price sufficient to pay off all principal and interest on the Bonds, plus \$1.00. As of September 30, 2013 there was approximately \$4.6 million outstanding against this lease facility.

We also have certain obligations with various parties that include commitments to make future payments. Our principal commitments at September 30, 2013 consisted of payments under operating leases for certain of our real property and equipment, payments under capital leases for equipment, and payments under employment and other service agreements.

Our earnings and cash flows are seasonal in nature, with the fourth quarter of the fiscal year generating somewhat higher earnings and cash flows than the other quarters. Levels of earnings and cash flows are dependent on factors such as consolidated gross margin and selling, general and administrative costs as a percentage of sales, the relative level of sales generated by our Industrial Products and Technology Products segments, product mix within our segments, and relative levels of domestic and foreign sales. Unusual expense items, such as special charges may impact earnings and are separately disclosed. We expect that past performance may not be indicative of future performance due to the competitive nature of our Technology Products segment where the need to adjust prices to gain or hold market share is prevalent.

Macroeconomic conditions, such as business and consumer sentiment, may affect our revenues, cash flows or financial condition. However, we do not believe that there is a direct correlation between any specific macroeconomic indicator and our revenues, cash flows or financial condition. We are not currently interest rate sensitive, as we have minimal debt.

We anticipate cash needs to support our working capital requirements in our business, including working capital for the expansion of the European shared services center's support functions, reorganizing our European operations, including workforce reductions costs, implementing new inventory and warehouse functions in Europe, closing of several retail stores, the new distribution and call center for our Industrial Products segment, funding capital expenditures, continuing investment in upgrading and expanding our technological capabilities and information technology infrastructure, repaying outstanding debt, and funding special dividends declared by our Board of Directors and funding acquisitions. We rely principally upon operating cash flows to meet these needs. We believe that cash flows from operations and our availability under credit facilities will be sufficient to fund our working capital and other cash requirements for the next twelve months. We believe our current capital structure and cash resources are adequate for our internal growth initiatives. To the extent our growth initiatives expand, including major acquisitions, we would seek to raise capital. We believe that, if needed, we can access public or private funding alternatives to raise additional capital.

These expenses and capital expenditures described above will require significant levels of liquidity, which we believe can be adequately funded from our currently available cash and revolving credit resources. We have recently engaged in several opportunistic acquisitions, choosing to pay the purchase price in cash, and may do so in the future as favorable situations arise. However, a deep and prolonged period of reduced consumer and/or business to business spending could adversely impact our cash resources and force us to either forego future acquisition opportunities or to pay the purchase price in shares of our common stock, which could have a dilutive effect on our earnings per share.

We maintain our cash primarily in money market funds or their equivalent. As of September 30, 2013, all of our investments had maturities of less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Off-balance Sheet Arrangements.

The Company has not created, and is not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating the Company's business. The Company does not have any arrangements or relationships with entities that are not consolidated into the financial statements that are reasonably likely to materially affect the Company's liquidity or the availability of capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, which include changes in U.S. and international interest rates as well as changes in currency exchange rates (principally British Pounds Sterling, European Union Euros and Canadian dollars) as measured against the U.S. dollar and each other.

The translation of the financial statements of our operations outside of the United States is impacted by movements in foreign currency exchange rates. Changes in currency exchange rates as measured against the U.S. dollar may positively or negatively affect income statement, balance sheet and cash flows as expressed in U.S. dollars. We have no derivative financial instruments and do not use them for trading purposes at this time. We may enter into foreign currency options or forward exchange contracts aimed at limiting in part the impact of certain currency fluctuations, but as of September 30, 2013 we had no outstanding option or forward exchange contracts.

Our exposure to market risk for changes in interest rates relates primarily to our variable rate debt. Our variable rate debt includes short-term borrowings under our credit facilities. As of September 30, 2013, there were no outstanding balances under our variable rate credit facility. A hypothetical change in average interest rates of one percentage point is not expected to have a material effect on our financial position, results of operations or cash flows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2013. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

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

Management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls over financial reporting during the quarterly period ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are involved in various lawsuits, claims, investigations and proceedings, including commercial, employment, consumer, personal injury and health and safety law matters, which are being handled and defended in the ordinary course of business. In addition, the Company is subject to various assertions, claims, proceedings and requests for indemnification concerning intellectual property matters, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells. The Company is also audited by (or has initiated voluntary disclosure agreements with) numerous governmental agencies in various countries, including U.S. Federal and state authorities, concerning potential income tax, sales tax and unclaimed property liabilities. These matters are in various stages of investigation, negotiation and/or litigation, and are being vigorously defended. In this regard, the state of Pennsylvania has claimed that certain of the Company's consumer electronics e-commerce sales are subject to sales tax in Pennsylvania. The Company intends to vigorously defend this matter and believes it has strong defenses. The Company is also being audited by an entity representing 45 states seeking recovery of "unclaimed property", which related liability has been included in the Condensed Consolidated Balance Sheet within accounts payable. The Company is complying with the audit and is providing requested information.

Although the Company does not expect, based on currently available information, that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition or results of operations, the ultimate outcome is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. The Company routinely assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable and estimable.

Item 6. Exhibits

- 10.32 Amendment No. 2 and Waiver, dated as of August 7, 2013, to the Second Amended and Restated Credit Agreement by and among Systemax Inc. and certain affiliates thereof and JPMorgan Chase Bank, N.A., as U.S. Administrative Agent and the lenders from time to time party thereto (filed herewith)
- 10.33 Amendment No. 3 and Waiver, dated as of October 31, 2013 with an effective date of September 28, 2013, to the Second Amendment and Restated Credit Agreement by and among Systemax Inc. and certain affiliates thereof and JPMorgan Chase Bank, N.A., as U.S. Administrative Agent and the lenders from time to time party thereto (filed herewith)
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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.

SYSTEMAX INC.

Date: November 5, 2013 By:/s/ Richard Leeds

Richard Leeds
Chairman and Chief
Executive Officer

By:/s/ Lawrence Reinhold

Lawrence Reinhold
Executive Vice President
and Chief Financial
Officer