

SYSTEMAX INC
Form 10-Q
November 07, 2018

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, 2018

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 incorporation or organization) (I.R.S. Employer 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by checkmark 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 shares outstanding of the registrant's Common Stock as of October 31, 2018 was 37,260,129.

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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.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Systemax Inc.

Condensed Consolidated Balance Sheets (Unaudited)

(In millions)

	September 30, 2018	December 31, 2017
ASSETS:		
Current assets:		
Cash	\$ 302.8	\$ 184.5
Accounts receivable, net	87.9	73.1
Inventories	91.2	88.2
Prepaid expenses and other current assets	8.7	3.3
Current assets of discontinued operations	0.0	145.0
Total current assets	490.6	494.1
Property, plant and equipment, net	14.3	14.0
Deferred income taxes	12.5	20.1
Goodwill and intangibles	9.9	10.6
Other assets	1.0	1.1
Long term assets of discontinued operations	0.0	11.5
Total assets	\$ 528.3	\$ 551.4
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 105.2	\$ 108.1
Dividend payable	0.0	55.7
Accrued expenses and other current liabilities	38.7	38.5
Current liabilities of discontinued operations	0.0	113.5
Total current liabilities	143.9	315.8
Other liabilities	13.1	20.0
Long term liabilities of discontinued operations	0.0	3.8
Total liabilities	157.0	339.6
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	0.0	0.0
Common stock	0.4	0.4
Additional paid-in capital	186.5	186.5
Treasury stock	(25.7)	(21.8)
Retained earnings	206.9	44.8
Accumulated other comprehensive income	3.2	1.9
Total shareholders' equity	371.3	211.8
Total liabilities and shareholders' equity	\$ 528.3	\$ 551.4

See Notes to Condensed Consolidated Financial Statements.

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Systemax Inc.

Condensed Consolidated Statements of Operations (Unaudited)

(In millions, except per share amounts)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net sales	\$235.8	\$204.4	\$679.2	\$597.3
Cost of sales	153.6	133.2	444.5	389.4
Gross profit	82.2	71.2	234.7	207.9
Selling, distribution & administrative expenses	62.9	58.6	186.0	173.1
Special charges	0.9	0.1	0.9	0.3
Operating income from continuing operations	18.4	12.5	47.8	34.5
Interest and other (income) expense, net	(0.3)	0.2	(0.2)	(0.2)
Income from continuing operations before income taxes	18.7	12.3	48.0	34.7
Provision for income taxes	3.6	1.0	10.8	1.8
Net income from continuing operations	15.1	11.3	37.2	32.9
Income (loss) from discontinued operations, net of tax	163.7	0.0	174.4	(26.3)
Net income	\$178.8	\$11.3	\$211.6	\$6.6
Net income per common share from continuing operations:				
Basic	\$0.41	\$0.31	\$1.00	\$0.89
Diluted	\$0.40	\$0.30	\$0.98	\$0.88
Net income (loss) per common share from discontinued operations:				
Basic	\$4.40	\$0.00	\$4.69	\$(0.71)
Diluted	\$4.32	\$0.00	\$4.59	\$(0.70)
Net income per common share:				
Basic	\$4.81	\$0.31	\$5.69	\$0.18
Diluted	\$4.72	\$0.30	\$5.57	\$0.18
Weighted average common and common equivalent shares:				
Basic	37.2	37.0	37.2	37.0
Diluted	37.9	37.7	38.0	37.4
Dividends declared	\$0.11	\$0.10	\$1.33	\$0.25

See Notes to Condensed Consolidated Financial Statements.

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Systemax Inc.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$178.8	\$11.3	\$211.6	\$6.6
Other comprehensive income:				
Foreign currency translation	(0.5)	2.1	(2.8)	6.9
Total comprehensive income	\$178.3	\$13.4	\$208.8	\$13.5

See Notes to Condensed Consolidated Financial Statements.

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Systemax Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Income from continuing operations	\$37.2	\$32.9
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	3.3	3.5
Provision for returns and doubtful accounts	0.2	1.0
Compensation expense related to equity compensation plans	0.5	1.1
Provision for deferred taxes	0.6	0.5
Gain on disposition and abandonment	0.0	(0.1)
Changes in operating assets and liabilities:		
Accounts receivable	(15.8)	(13.1)
Inventories	(3.2)	(2.4)
Prepaid expenses and other current assets	(3.1)	(0.6)
Income taxes payable	4.5	0.3
Accounts payable	(2.7)	8.2
Accrued expenses, other current liabilities and other liabilities	(6.3)	6.7
Net cash provided by operating activities from continuing operations	15.2	38.0
Net cash used in operating activities from discontinued operations	(35.1)	(4.6)
Net cash (used in) provided by operating activities	(19.9)	33.4
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2.9)	(1.4)
Proceeds from disposals of property, plant and equipment	0.0	0.1
Net cash used in investing activities from continuing operations	(2.9)	(1.3)
Net cash provided by (used in) investing activities from discontinued operations	249.6	(0.3)
Net cash provided by (used in) investing activities	246.7	(1.6)
Cash flows from financing activities:		
Dividends paid	(105.2)	(9.2)
Proceeds from issuance of common stock	4.2	1.6
Payment of payroll taxes on stock-based compensation through shares withheld	(1.4)	(0.3)
Repayments of capital lease obligations	0.0	(0.1)
Repurchase of treasury shares	(9.1)	0.0
Net cash used in financing activities	(111.5)	(8.0)
Effects of exchange rates on cash	3.0	2.5
Net increase in cash	118.3	26.3
Cash – beginning of period	184.5	149.7
Cash – end of period	\$302.8	\$176.0

Supplemental disclosures of non-cash investing and financing activities:

Acquisition of equipment through capital leases	\$0.0	\$0.3
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See Notes to Condensed Consolidated Financial Statements.

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Systemax Inc.

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(In millions)

	Common Stock					Accumulated	
	Number of Shares Outstanding	Amount	Paid-in Capital	Treasury Stock, At Cost	Retained Earnings	Other Comprehensive Income (Loss)	Total Equity
Balances, January 1, 2018	37,094	\$ 0.4	\$ 186.5	\$ (21.8)	\$ 44.8	\$ 1.9	\$ 211.8
Stock-based compensation expense			2.4				2.4
Issuance of restricted stock	107		(1.3)	1.3			0.0
Stock withheld for employee taxes	(45)		(0.8)	(0.6)			(1.4)
Proceeds from issuance of common stock	337		(0.3)	4.5			4.2
Dividends declared					(49.5)		(49.5)
Repurchase of treasury shares	(233)			(9.1)			(9.1)
Discontinued France operations cumulative translation adjustment						4.1	4.1
Change in cumulative translation adjustment						(2.8)	(2.8)
Net income					211.6		211.6
Balances, September 30, 2018	37,260	\$ 0.4	\$ 186.5	\$ (25.7)	\$ 206.9	\$ 3.2	\$ 371.3

See Notes to Condensed Consolidated Financial Statements.

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Systemax Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Systemax Inc., with its subsidiaries, (the "Company") 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.

On August 31, 2018, the Company closed on the sale of its France-based IT value added reseller business to Bechtle AG. The sale was denominated on a cash-free, debt-free basis and included normalized working capital adjustments. The Company recorded a pre-tax book gain on the sale of the France business, which was reported within the discontinued operations of the Company's European Technology Products Group ("ETG") segment, of approximately \$178.2 million. The pre-tax book gain included proceeds from the sale of approximately \$267.3 million offset by the \$82.5 million of net assets sold and by expenses related to the sale of approximately \$6.6 million. These expenses included \$5.1 million of deal transaction costs and \$1.5 million for accelerated amortization expense of restricted stock units and stock options. Of the expenses mentioned, \$5.1 million of deal transaction costs required or will require the use of cash. The Company is providing limited transition services to the France business for a period of up to six months, following the closing, under a transition services agreement.

On March 24, 2017, certain wholly owned subsidiaries of the Company executed a definitive securities purchase agreement (the "Purchase Agreement") with certain special purpose companies formed by Hilco Capital Limited ("Hilco" and together with its management team partners, "Purchaser"). Pursuant to the Purchase Agreement, Purchaser acquired all of the Company's interests in Systemax Europe SARL, which included its subsidiaries, Systemax Business Services K.F.T., Misco UK Limited, Systemax Italy S.R.L., Misco Iberia Computer Supplies S.L., Misco AB, Global Directmail B.V. and Misco Solutions B.V. (collectively, the "SARL Businesses"). The Company retained its France technology value added reseller business, which is conducted through its subsidiary, Inmac Wstore S.A.S., which was not part of the sale transaction. The SARL Businesses were reported within the Company's European Technology Products Group ("ETG") segment. The transaction closed immediately upon execution of the Purchase Agreement.

The SARL Businesses were sold on a cash-free, debt-free basis; proceeds were nominal. As part of the transaction, the Company retained a 5% residual equity position in the Purchaser's acquiring entity, HUK 77 Limited, which was accounted for on the cost method, to which no value was ascribed, a \$3.3 million note receivable (\$2.2 million balance at December 31, 2017 which was paid in full in January 2018) and provided limited transition services to Purchaser through December 19, 2017 under a transition services agreement. The note receivable was included in accounts receivable, net in the Condensed Consolidated Balance Sheet at December 31, 2017.

The sale of the France business and SARL Businesses met the "strategic shift with major impact" criteria as defined under Accounting Standards Update ("ASU") 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which requires disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under ASU 2014-08 in order for a disposal to qualify for discontinued operations presentation in the financial statements, the disposal must be a "strategic shift" with a major impact for the reporting entity. If the entity meets this threshold, and other requirements, only the components that were in operation at the time of disposal are presented as discontinued operations. Therefore, the current and prior year results of the France business and SARL Businesses are included in discontinued operations in the accompanying

condensed consolidated financial statements.

On September 2, 2016, the Company sold certain assets of its Misco Germany operations which had been reported as part of its ETG segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-08, any current and prior year results of the German operations are presented within continuing operations in the condensed consolidated financial statements. With the sale of the France business in August 2018, these results are now presented in the "Corporate and other" segment.

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On December 1, 2015, the Company sold its North American Technology Group ("NATG") operating businesses and began the wind-down of its remaining NATG operations. The sale of the NATG business had a major impact on the Company and therefore met the strategic shift criteria as defined under ASU 2014-08. The NATG components in operation at the time of the sale were the B2B and Ecommerce businesses and three retail stores. Accordingly, these components and any related results of operations will be reflected in discontinued operations. The Company has financial obligations related to leased facilities of its former NATG business of approximately \$17.5 million. Some of these leased facilities have been sublet and others are being marketed for sublet. The Company has engaged nationally recognized real estate firms to market these facilities and to assist in establishing the reserves the Company carries for these lease obligations. As of September 30, 2018, the Company has a reserve of \$6.7 million for these lease obligations. The reserves established consider the total lease obligations of \$17.5 million, current sublet income streams and projected sublet income streams. On a quarterly basis these reserves are re-evaluated particularly related to the projected sublease income streams. In the third quarter of 2018, the Company recorded lease reserves of approximately \$2.6 million for these leased facilities, of which \$0.8 million was recorded within continuing operations and \$1.8 million within discontinued operations and for the nine months ended September 30, 2018, the Company recorded lease reserves of \$2.5 million, of which \$0.8 million was recorded within continuing operations and \$1.7 million was recorded within discontinued operations. The Company expects that further adjustment may be needed in the future for the remaining facilities if current sublease assumptions do not materialize.

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, 2018 and the results of operations for the three and nine month periods ended September 30, 2018 and 2017, statements of comprehensive income (loss) for the three and nine month periods ended September 30, 2018 and 2017, cash flows for the nine month periods ended September 30, 2018 and 2017 and changes in shareholders' equity for the nine month period ended September 30, 2018. The December 31, 2017 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, 2017.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2017 and for the year then ended included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The results for the nine month period ended September 30, 2018 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 third quarter ended on September 29, 2018 and September 30, 2017. The third quarters of both 2018 and 2017 included 13 weeks and the first nine months of both 2018 and 2017 included 39 weeks.

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.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which amends the guidance for the recognition of revenue from contracts with customers to transfer goods and services. The new revenue recognition standard is effective for interim and annual periods beginning on January 1, 2018. The new standard was required to be adopted using either a full-retrospective or a modified-retrospective approach. The Company adopted

the new standard using the modified-retrospective approach beginning on January 1, 2018. There was no material impact to total revenues in our consolidated statements of income, accounting policies, business processes, internal controls or disclosures. See Note 2 of the Notes to condensed consolidated financial statements.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which provides entities with an additional (and optional) transition method, in addition to the existing transition method, the modified retrospective approach, to adopt the new leases standard by allowing entities to initially apply the new leases standard, ASU 2016-02, Leases (Topic 842), at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This additional transition method changes only when an entity is required to initially apply the transition requirements of the new leases standard; it does not change how those requirements apply. An entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP. ASU 2016-02 related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding

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right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted. The Company is currently in the process of evaluating which method to adopt. The Company believes the adoption of the new leasing standard will have a material impact on the consolidated financial statements as the estimated increase of right-of-use assets and lease liabilities on the consolidated balance sheets is expected to exceed \$50 million. The ultimate impact, however, will depend on the Company's lease portfolio as of the adoption date.

In June 2018, the FASB issued ASU 2018-07, Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year, with early adoption permitted after adoption of ASU 2014-09. The Company is evaluating the effect of adopting this pronouncement.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurements, which eliminates, adds or modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year, with early adoption permitted to adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company is evaluating the effect of adopting this pronouncement.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year, with early adoption permitted, including adoption in any interim period. The Company is evaluating the effect of adopting this pronouncement.

In March 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment, which eliminates the second step from the goodwill impairment test. An entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, but the loss cannot exceed the total amount of goodwill allocated to the reporting unit. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the effect of adopting this pronouncement.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718) Scope of Modification Accounting, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. This new guidance will be applied prospectively to awards modified on or after the adoption date. This standard is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted this standard beginning January 1, 2018 and its adoption did not materially impact the Company's consolidated financial position or results of operations when implemented in the first quarter of 2018.

2.Revenue

As a result of the sale of the Company's France business, the Company's revenue generated by its operating subsidiaries is now comprised of sales of maintenance, repair and operational ("MRO") products as well as other industrial and business supplies that are sold by the Industrial Products Group ("IPG"). Information and communications technology ("ICT") products that were sold by ETG are now reported within discontinued operations. IPG also has revenues from related activities, such as freight and, to a lesser extent, services.

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The Company recognizes revenue when a sales arrangement with a customer exists through the Company's invoicing or a contract, the performance obligations have been identified, the transaction price is fixed or determinable and the Company has satisfied its performance obligations. The Company's standard terms, provided on its invoices as well as on its websites, are included in communications with the customer and have standard payment terms of 30 days. Certain customers may have extended payment terms that have been pre-approved by the Company's credit department, but generally none extend longer than 120 days.

The Company's performance obligation is primarily a single obligation to deliver products. The Company's performance obligations are satisfied when products are transferred to a customer in accordance with agreed upon shipping terms. Certain sales may include product and/or services that are distinct and accounted for as separate performance obligations. The Company's performance obligations for services are satisfied when the services are rendered. The Company's total service revenue is immaterial as it accounted for less than 1% of total revenue for the third quarter and nine months ended September 30, 2018.

The Company's revenue is shown as "Net sales" in the accompanying Condensed Consolidated Statements of Operations and is measured as the determined transaction price, net of any variable consideration consisting primarily of rights to return product. The Company has elected to treat shipping and handling revenues as activities to fulfill its performance obligation. Billings for freight and shipping and handling are recorded in net sales and costs of freight and shipping and handling are recorded in cost of sales in the accompanying Condensed Consolidated Statements of Operations.

The Company records a contract liability in cases where customers pay in advance of the Company satisfying its performance obligation. The Company did not have any material unsatisfied performance obligations or liabilities as of September 30, 2018.

The Company offers customers rights to return product within a certain time, usually 30 days. The Company estimates its sales returns liability quarterly based upon its historical returns rates as a percentage of historical sales for the trailing twelve-month period. The total accrued sales returns liability was approximately \$2.3 million at September 30, 2018 and was recorded as a refund liability in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets.

Disaggregation of Revenues

IPG serves customers in diverse geographies, which are subject to different economic and industry factors. The Company's presentation of revenue by geography most reasonably depicts how the nature, amount, timing and uncertainty of Company revenue and cash flows are affected by economic and industry factors. The following table presents the Company's revenue by reportable segment and by geography for the three and nine months periods ended September 30, 2018:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Net sales:		
IPG MRO products and industrial supplies-United States	\$ 225.1	\$ 647.5
IPG MRO products and industrial supplies-Canada	10.7	31.7

Consolidated	\$ 235.8	\$ 679.2
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3. Dispositions and Special Charges

The Company's discontinued operations include the results of the France business sold in August 2018, the SARL Businesses sold in March 2017 and the NATG business sold in December 2015 (See Note 1).

In the third quarter and for the nine months ended September 30, 2018, the Company recorded a pre-tax book gain on the sale of the France business, which was reported within the discontinued operations of the Company's ETG segment, of approximately \$178.2 million. The pre-tax book gain included proceeds from the sale of approximately \$267.3 million offset by the \$82.5 million of net assets sold and by expenses related to the sale of approximately \$6.6 million. These expenses

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included \$5.1 million of deal transaction costs and \$1.5 million for accelerated amortization expense of restricted stock units and stock options. Of the expenses mentioned, \$5.1 million of deal transaction costs required or will require the use of cash.

In the third quarter of 2018, there were a de minimis amount of legal and professional fees incurred related to the wind down of the SARL Businesses. For the nine months ended September 30, 2018, the Company recorded approximately \$0.2 million in recoveries of escrow funds, \$0.1 million of accelerated depreciation charges and \$0.1 million for legal and professional fees related to the wind down of the SARL Businesses, within discontinued operations. The impact of the previously mentioned charges and recoveries related to the wind down of the SARL Businesses for the nine months ended September 30, 2018, net to zero. Of the previously mentioned charges, legal and professional fees required the use of cash. The Company expects that total additional charges related to the wind down of the SARL businesses will be less than \$1.0 million.

In the third quarter of 2018, the Company's NATG discontinued operations received \$0.3 million in restitution receipts from a former executive of NATG, recorded approximately \$0.1 million in favorable accrual adjustments related to the ongoing restitution proceedings and recorded \$1.8 million in lease reserve adjustments related to their leased facilities, within discontinued operations. For the nine months ended September 30, 2018, the Company's NATG discontinued operations received \$1.0 million in restitution receipts from a former executive of NATG, recorded lease reserves adjustments of approximately \$1.7 million related to their leased facilities, received \$0.1 million in vendor settlements and recorded legal and professional fees, related to the ongoing restitution proceedings, of \$0.1 million. The impact of the previously mentioned charges and recoveries related to the NATG discontinued operations totaled \$0.7 million for the nine months ended September 30, 2018. The Company expects that total additional charges related to the sale of the NATG business after this quarter will be less than \$1.0 million and that these charges will be presented in discontinued operations. Additional costs may be incurred in NATG for outstanding leased facilities if current sublease assumptions do not materialize (see Note 1). Most of these anticipated costs will require the use of cash. Amounts that are unpaid at September 30, 2018 are recorded in Accrued expenses and other current liabilities and Other liabilities (long term) in the accompanying Condensed Consolidated Balance Sheets.

In the third quarter and for the nine months ended September 30, 2018, the Company's NATG continuing operations recorded approximately \$0.8 million of special charges for updating our future lease cash flows expectations related to previously exited retail stores and a warehouse.

In the third quarter and for the nine months ended September 30, 2018, the Company's German continuing operations recorded approximately \$0.1 million of special charges for updating future lease cash flows expectations related to a previously exited lease obligation.

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Below is a summary of the impact on net sales, net income (loss) and net income (loss) per share from discontinued operations for the three and nine month periods ended September 30, 2018 and 2017. A reconciliation of pretax income (loss) of Discontinued operations to the Net Income (loss) of discontinued operations is as follows (in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net sales	\$77.1	\$114.9	\$352.0	\$454.5
Cost of sales	66.2	96.5	295.8	385.4
Gross profit	10.9	18.4	56.2	69.1
Selling, distribution & administrative expenses	6.7	15.3	36.0	59.8
Pre-tax book gain on sale of France business	(178.2)	0.0	(178.2)	0.0
Special charges	1.4	0.3	0.7	28.6
Operating income (loss) from discontinued operations	181.0	2.8	197.7	(19.3)
Interest and other (income) expenses, net	0.1	0.4	(0.2)	1.0
Income (loss) from discontinued operations before income taxes	180.9	2.4	197.9	(20.3)
Provision for income taxes	17.2	2.4	23.5	6.0
Net income (loss) from discontinued operations	\$163.7	\$0.0	\$174.4	\$(26.3)
Net income (loss) per share – basic	\$4.40	\$0.00	\$4.69	\$(0.71)
Net income (loss) per share – diluted	\$4.32	\$0.00	\$4.59	\$(0.70)

Total special charges incurred, within discontinued operations, in the third quarter of 2017 totaled approximately \$0.3 million, of which \$0.2 million related to the discontinued operations of the SARL business related to a transitional services agreement and, within NATG discontinued operations, approximately \$0.1 million of professional costs were incurred related to the ongoing restitution proceedings against certain former NATG executives.

Total special charges incurred, within discontinued operations, for the nine months ended September 30, 2017 totaled approximately \$28.6 million. The combined loss on the sale of the SARL Businesses totaled \$24.4 million, which included an \$8.2 million loss on the sale of net assets, \$14.4 million of translation adjustments, and \$1.0 million of legal, professional and other costs, \$0.3 million of severance and other personnel costs and \$0.3 million of accelerated depreciation charges and \$0.2 million related to a transitional services agreement. In addition, NATG discontinued operations incurred special charges of \$4.2 million, which included approximately \$3.5 million primarily related to updating our future lease cash flows and \$0.7 million related to the ongoing restitution proceedings against certain former NATG executives.

Total special charges incurred, within continuing operations, in the third quarter of 2017 and nine months ended September 30, 2017 totaled \$0.1 million and \$0.3 million, respectively. These charges related to updating our future lease cash flows expectations related to our previously exited retail stores.

The following table details liabilities related to the sold NATG segment's leases and other costs and liabilities that remain from the sold Misco Germany business (Corporate) as of September 30, 2018 (in millions):

Corporate NATG – Total
– Lease Lease
liabilities liabilities
and and

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	other costs	other exit costs	
Balance January 1, 2018	\$ 1.2	\$ 19.0	\$20.2
Charged to expense (income)	0.1	2.5	2.6
Paid or otherwise settled	(0.2)	(14.8)	(15.0)
Balance September 30, 2018	\$ 1.1	\$ 6.7	\$7.8

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4. Net Income (Loss) 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 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 per share was 0.5 million shares for the three months ended September 30, 2018 and 2017, and the weighted average number of restricted stock awards included in the computation of diluted earnings per share was 0.2 million shares for the three months ended September 30, 2018 and 2017. The weighted average number of stock options outstanding included in the computation of diluted earnings per share was 0.6 million and 0.2 million shares for the nine months ended September 30, 2018 and 2017, respectively, and the weighted average number of restricted stock awards included in the computation of diluted earnings per share was 0.2 million shares for the nine months ended September 30, 2018 and 2017. The weighted average number of stock options outstanding excluded from the computation of diluted earnings per share due to their antidilutive effect was zero shares for the three months ended September 30, 2018 and 2017, and zero shares and 0.2 million shares for the nine months ended September 30, 2018 and 2017, respectively.

5. Credit Facilities

The Company maintains a \$75 million secured revolving credit facility with one financial institution, which has a five year term, maturing on October 28, 2021 and provides for borrowings in the United States. 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. 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 the inventory advance rate computed as the lesser of 60% or 85% of the net orderly liquidation value ("NOLV"). Borrowings are secured by substantially all of the Borrower's assets, as defined, including all accounts, accounts receivable, inventory and certain other assets, subject to limited exceptions, including the exclusion of certain foreign assets from the collateral. The interest rate under the amended and restated facility is computed at applicable market rates based on the London interbank offered rate ("LIBOR"), the Federal Reserve Bank of New York ("NYFRB") or the Prime Rate, plus an applicable margin. The applicable margin varies based on borrowing base availability. As of September 30, 2018, eligible collateral under the credit agreement was \$75.0 million, total availability was \$73.4 million, total outstanding letters of credit were \$2.3 million, total excess availability was \$71.1 million and there were no outstanding borrowings. The Company was in compliance with all of the covenants of the credit agreement in place as of September 30, 2018.

6. Segment Information

Systemax Inc., through its operating subsidiaries, is a provider of industrial products in North America going to market through a system of branded e-Commerce websites and relationship marketers. Prior to August 31, 2018, the Company operated and was internally managed in two reportable business segments— Industrial Products Group (“IPG”) and Europe Technology Products Group (“ETG”), the Company's France operations. As previously stated, the Company sold its France-based IT value added reseller business on August 31, 2018 and, now, the Company's continuing operations are its IPG businesses in North America, which focus on industrial supplies and MRO (maintenance, repair and operations) markets the Company has served since 1949. Smaller business operations and corporate functions are aggregated and reported as the additional segment – Corporate and Other (“Corporate”).

IPG sells a wide array of maintenance, repair and operational (“MRO”) products, as well as other industrial and general business supplies, which are marketed in North America. Many 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.

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ETG sold information and communications technology (“ICT”) products. These products were marketed primarily in France and to a much lesser extent Belgium. Substantially all of these products were manufactured by other companies. As previously stated, ETG France business was sold on August 31, 2018. Current and prior year results of these operations, along with the associated gain on the sale, have been classified within discontinued operations.

NATG, which was previously its own reportable segment, is included below for operating losses that remain in continuing operations, primarily related to the wind down of certain leases.

The Company’s chief operating decision-maker is the Company’s Chief Executive Officer (“CEO”). The CEO, in his role as Chief Operating Decision Maker (“CODM”), evaluates segment performance based on operating income (loss) from continuing operations. The CODM 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. Corporate costs not identified with the disclosed segments are grouped as “Corporate and other expenses”.

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

	Three Months Ended September 30, 2018		2017		Nine Months Ended September 30, 2018		2017	
Net sales:								
IPG	\$235.8		\$204.4		\$679.2		\$597.3	
Operating income (loss):								
IPG	\$23.9		\$19.8		\$63.2		\$55.2	
NATG – continuing operations	(0.8	)	(0.3	)	(0.8	)	(0.7	)
Corporate and other expenses	(4.7	)	(7.0	)	(14.6	)	(20.0	)
Consolidated	\$18.4		\$12.5		\$47.8		\$34.5	

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

	Three Months Ended September 30, 2018		2017		Nine Months Ended September 30, 2018		2017	
Net sales:								
United States	\$225.1		\$196.3		\$647.5		\$573.5	
Canada	10.7		8.1		31.7		23.8	
Consolidated	\$235.8		\$204.4		\$679.2		\$597.3	

Revenue is attributed to countries based on the location of the selling subsidiary.

7. 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. At September 30, 2018 and 2017, 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. Cash is classified as Level 1 within the fair value hierarchy. The Company's debt is considered to be representative of its fair value because of its variable interest rate.

The fair value of our reporting units with respect to goodwill, non-amortizing intangibles and long-lived assets is measured in connection with the Company's annual impairment testing. The Company performs a qualitative assessment of goodwill and non-amortizing intangibles to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment shows that the fair value of the reporting unit exceeds its carrying amount, the company is not required to complete the annual two step goodwill impairment test. If a quantitative analysis is required to be performed for goodwill, the fair value of the reporting unit to which the goodwill has been assigned is determined

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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, gross margin percentages, new business opportunities, working capital requirements, capital expenditures and growth in selling, distribution and administrative expense. Any excess of a reporting unit's carrying amount over fair value would be charged to impairment expense.

Long-lived assets are assets used in the Company's operations and include definite-lived intangible assets, leasehold improvements, warehouse and similar property used to generate sales and cash flows. Long-lived assets are tested for impairment utilizing a recoverability test. The recoverability test compares the carrying value of an asset group to the undiscounted cash flows directly attributable to the asset group over the life of the primary asset. If the undiscounted cash flows of an asset group is less than the carrying value of the asset group, the fair value of the asset group is then measured. If the fair value is also determined to be less than the carrying value of the asset group, the asset group is impaired.

8. Income taxes

On December 22, 2017, the Tax Cut and Jobs Act ("TCJA") was enacted in the United States. The TCJA significantly changed U.S. corporate tax impacts by, among other things, lowering the corporate tax rate to 21% from 35% effective January 1, 2018, implementing a territorial tax system and imposing a one-time repatriation tax on previously untaxed, accumulated earnings of foreign subsidiaries. As a result of the new tax law, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 118 ("SAB 118"). SAB 118 allows companies to record the tax impacts of the new law as provisional amounts during a measurement period of up to one year from the enactment date of the new law.

The Company applied SAB 118 when accounting for the enactment-date effects of the TCJA for the year ended December 31, 2017 and recorded provisional amounts related to the one-time transition tax for the repatriation of foreign earnings and the revaluation of deferred tax balances. The Company expects to complete its analysis of the historical earnings and profits of all of its foreign subsidiaries and record any adjustment to the provisional amounts in the fourth quarter of 2018.

As of September 30, 2018, the Company has not completed its 2017 Federal income tax return or the analysis for all of the tax effects of the TCJA and has not recorded any adjustments to the amounts recorded at year-end.

9. Legal Proceedings

The Company and its subsidiaries are from time to time involved in various lawsuits, claims, investigations and proceedings which may include commercial, employment, tax, customs and trade, customer, vendor, personal injury, creditors rights and health and safety law matters, which are handled and defended in the ordinary course of business. In addition, the Company is from time to time subjected to various assertions, claims, proceedings and requests for damages and/or indemnification concerning sales channel practices and intellectual property matters, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells or that are incorporated in the Company's e-commerce sales channels, as well as trademark/copyright infringement claims. The Company is also audited by (or has initiated voluntary disclosure agreements with) various U.S. Federal and state authorities, as well as Canadian authorities, concerning potential income tax, sales tax and/or "unclaimed property" liabilities. These matters are in various stages of investigation, negotiation and/or litigation. The Company is also being audited by an entity representing 23 states seeking recovery of "unclaimed property" and has received separate demands from 21 states requesting payments of their claimed amounts. The Company is complying with the unclaimed property audit, is providing requested information and is corresponding with the states regarding possible further discussions. The Company intends to vigorously defend these matters and believes it has strong defenses. In

September 2017 the Company and certain subsidiaries comprising its former NATG “Tiger” consumer electronics business were sued in United States District Court, Northern District of California by a software publisher alleging that the NATG subsidiaries violated certain contractual sales channel restrictions resulting in claims of breach of contract and trademark/copyright infringement. The matter is at a very early stage and although Systemax Inc. has been dismissed from the case, the Company is continuing to assess the remaining claims against and the defenses available to the remaining subsidiary defendants; the Company cannot predict the outcome of this matter and believes the potential damages, if any, cannot be estimated at this time.

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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 position 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 regularly 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. In this regard, the Company establishes accrual estimates for its various lawsuits, claims, investigations and proceedings when it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and the loss can be reasonably estimated. At September 30, 2018 the Company has established accruals for certain of its various lawsuits, claims, investigations and proceedings based upon estimates of the most likely outcome in a range of loss or the minimum amounts in a range of loss if no amount within a range is a more likely estimate. The Company does not believe that at September 30, 2018 any reasonably possible losses in excess of the amounts accrued would be material to the financial statements.

10. Stock Repurchase

On July 31, 2018 the Company's Board of Director's approved a share repurchase program with a repurchase authorization of up to two million shares of the Company's common stock. Under the share repurchase program, the Company is authorized to purchase shares from time to time through open market purchases, tender offerings or negotiated purchases, subject to market conditions and other factors. During the third quarter of 2018, the Company repurchased 232,550 common shares for approximately \$9.1 million from certain executive officers and directors. Details of the purchase is as follows:

Fiscal Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July	232,550	\$38.96	232,550	1,767,450

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, and are based on management's estimates, assumptions and projections and are not

guarantees of future performance. Forward looking statements may include, but are not limited to, projections or estimates of revenue, income or loss, exit costs, cash flow needs and capital expenditures, statements regarding future operations, expansion or restructuring plans, including our exit from and winding down of our sold NATG operations, financing needs, compliance with financial covenants in loan agreements, fluctuations in economic conditions and exchange rates, including factors impacting our international operations, plans for acquisitions or sale of assets or businesses, 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.

Other factors that may affect our future results of operations and financial condition include, but are not limited to, unanticipated developments in any one or more of the following areas, as well as other factors which may be detailed from time to time in our Securities and Exchange Commission filings: risks involved with e-commerce, including possible loss of business and customer dissatisfaction if outages or other computer-related problems should preclude customer access to our products and services; the Company’s management information systems and other technology platforms supporting our sales, procurement and other operations are critical to our operations and disruptions or delays have occurred and could occur in the future, and if not timely

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addressed would have a material adverse effect on us; we could suffer a data security breach due to our e-commerce and data storage systems being hacked by those seeking to steal Company information, vendor, employee or customer personal information, or due to employee error, resulting in disruption to our operations, loss of information and privacy, legal claims and adverse material impact on our reputation and business; meeting credit card industry compliance standards in order to maintain our ability to accept credit cards; technological change has had and can continue to have a material effect on our product mix and results of operations; general economic conditions will continue to impact our business; extreme weather conditions could disrupt our product supply chain and our ability to ship or receive products, which would adversely impact sales; our international operations are subject to risks such as fluctuations in currency rates and foreign regulatory requirements or investigations; the imposition of tariffs and other trade barriers, as well as retaliatory trade measures, could require us to raise the prices on certain of our products and/or seek alternate sources of supply, which could negatively impact our sales or disrupt our operations; political uncertainty; and managing various inventory risks, such as being unable to profitably resell excess or obsolete inventory and/or the loss of product return rights.

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, as well as information under the heading "Risk Factors" in our Annual Report on Form 10-K for fiscal year 2017, 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 Inc., through its operating subsidiaries, is a provider of industrial products in North America going to market through a system of branded e-Commerce websites and relationship marketers. Prior to August 31, 2018, the Company operated and was internally managed in two reportable business segments— Industrial Products Group ("IPG") and Europe Technology Products Group ("ETG"), the Company's France operations. As detailed below, the Company sold its France-based IT value added reseller business on August 31, 2018 and, now, the Company's operations are its IPG businesses in North America, which focus on industrial supplies and MRO (maintenance, repair and operations) markets the Company has served since 1949. Smaller business operations and corporate functions are aggregated and reported as the additional segment – Corporate and Other ("Corporate").

On August 31, 2018, the Company closed on the sale of its France-based IT value added reseller business to Bechtle AG. The sale was denominated on a cash-free, debt-free basis and included normalized working capital adjustments. The Company recorded a pre-tax book gain on the sale of the France business, which was reported within the Company's ETG segment, of approximately \$178.2 million, within discontinued operations. The pre-tax book gain included proceeds from the sale of approximately \$267.3 million offset by the \$82.5 million of net assets sold and by expenses related to the sale of approximately \$6.6 million. These expenses included \$5.1 million of deal transaction costs and \$1.5 million for accelerated amortization expense of restricted stock units and stock options. Of the expenses mentioned, \$5.1 million required or will require the use of cash. The Company is providing limited transition services to the France business for a period of up to six months, following the closing, under a transition services agreement.

On March 24, 2017 certain wholly owned subsidiaries of the Company executed a definitive securities purchase agreement (the "Purchase Agreement") with certain special purpose companies formed by Hilco Capital Limited ("Hilco" and together with its management team partners, "Purchaser"). Pursuant to the Purchase Agreement, Purchaser acquired all of the Company's interests in Systemax Europe SARL, which included its subsidiaries, Systemax Business Services K.F.T., Misco UK Limited, Systemax Italy S.R.L., Misco Iberia Computer Supplies S.L., Misco AB, Global Directmail B.V. and Misco Solutions B.V. (collectively, the "SARL Businesses"). The Company retained its France technology value added reseller business, which was conducted through its subsidiary, Inmac Wstore S.A.S., which was not part of the sale transaction. The SARL Businesses were reported within the Company's European Technology Products Group ("ETG") segment. The transaction closed immediately upon execution of the Purchase Agreement.

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The SARL Businesses were sold on a cash-free, debt-free basis; proceeds were nominal. As part of the transaction, the Company retained a 5% residual equity position in the Purchaser's acquiring entity, HUK 77 Limited, which was accounted for on the cost method, to which no value was ascribed, a \$3.3 million note receivable (\$2.2 million balance at December 31, 2017 which was paid in full in January 2018) and provided limited transition services to Purchaser through December 19, 2017 under a transition services agreement. The note receivable was included in accounts receivable, net in the Condensed Consolidated Balance Sheet at December 31, 2017.

The sale of the France business and SARL Businesses met the "strategic shift with major impact" criteria as defined under Accounting Standards Update ("ASU") 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which allows for dispositions with major impact to be presented in the financial statements as discontinued operations. Therefore, the current year and prior year results of the France business and SARL Businesses are included in discontinued operations in the accompanying condensed consolidated financial statements. For the third quarter and nine months ended September 30, 2018, net sales of the France business included in discontinued operations totaled \$77.1 million and \$352.0 million, respectively. In the third quarter of 2018, net gain from the sale of the France business and two month's of operating activity, included within discontinued operations, totaled \$165.1 million. For the nine months ended September 30, 2018, net gain from the sale of the France business and eight month's of operating activity, included within discontinued operations, totaled \$175.1 million. For the third quarter and nine months ended September 30, 2017, net sales of the France business included in discontinued operations totaled \$114.9 million and \$337.5 million, respectively, and net income of the France business included in discontinued operations totaled \$2.8 million and \$10.8 million, respectively.

For the third quarter and nine months ended September 30, 2018, there were no net sales of the SARL Businesses included in discontinued operation and net income of the SARL Businesses included in discontinued operations totaled \$0 and \$0.2 million, respectively. For the third quarter and nine months ended September 30, 2017, net sales of the SARL Businesses included in discontinued operation totaled \$0 and \$117.0 million, respectively, and net loss of the SARL Businesses included in discontinued operations totaled \$0.2 million and \$28.4 million, respectively.

On December 1, 2015, the Company sold its NATG operating businesses and began the wind-down of its remaining NATG operations. The sale of the NATG business had a major impact on the Company and therefore met the strategic shift criteria as defined under ASU 2014-08. The NATG components in operation at the time of the sale were the B2B and Ecommerce businesses and three retail stores. Accordingly, these components and any related results of operations will be reflected in discontinued operations. The Company has financial obligations related to leased facilities of its former NATG business of approximately \$17.5 million. Some of these leased facilities have been sublet and others are being marketed for sublet. The Company has engaged nationally recognized real estate firms to market these facilities and to assist in establishing the reserves the Company carries for these lease obligations. As of September 30, 2018, the Company has a reserve of \$6.7 million for these lease obligations. The reserves established consider the total lease obligations of \$17.5 million, current sublet income streams and projected sublet income streams. On a quarterly basis these reserves are re-evaluated particularly related to the projected sublease income streams. In the third quarter and for the nine months ended September 30, 2018, the Company recorded lease reserves of approximately \$2.6 million and \$2.5 million, respectively. Of these previously mentioned charges, \$0.8 million was recorded within continuing operations in the third quarter and nine months ended September 30, 2018 and in the third quarter and nine months ended September 30, 2018, \$1.8 million and \$1.7 million, respectively, was recorded within discontinued operations. The Company expects that further adjustment may be needed in the future for the remaining facilities if current sublease assumptions do not materialize.

In the third quarter and nine months ended September 30, 2018, there were no net sales recorded for discontinued NATG operations within continuing or discontinued operations. For the third quarter and nine months ended September 30, 2018, special charges of \$0.8 million was recorded within continuing operations related to updating future lease cash flows expectations related to previously exited retail stores and a warehouse. Net loss of NATG

included within continuing operations totaled \$0.8 million for the third quarter and nine months ended September 30, 2018.

Net loss of NATG included within discontinued operations for the third quarter and nine months ended September 30, 2018 totaled approximately \$1.4 million and \$0.9 million, respectively. The loss for the quarter primarily related to the lease adjustments of \$1.8 million offset by restitution payments received of \$0.3 million and \$0.1 million of favorable accrual adjustments related to the ongoing restitution proceedings. The loss for the nine months ended September 30, 2018 primarily related to the lease adjustments of \$1.7 million related to their leased facilities, \$1.0 million received in restitution receipts from a former executive of NATG, \$0.1 million received in vendor settlements, \$0.1 million of legal and professional costs related to ongoing restitution proceedings against former NATG executives and \$0.2 million of ongoing operating expenses.

In the third quarter and nine months ended September 30, 2017, there were no net sales of NATG included in continuing or discontinued operations. In the third quarter and nine months ended September 30, 2017, NATG net loss included in continuing operations was \$0.3 million and \$0.7 million, respectively. Net loss of NATG included in discontinued operations for the third

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quarter and nine months ended September 30, 2017 was \$2.6 million and \$8.7 million, respectively. In the third quarter and nine months ended September 30, 2017, NATG recorded special charges of \$0.1 million and \$0.3 million, respectively, within continuing operations and these charges related to updating lease reserve adjustments. In the third quarter of 2017, NATG discontinued operations recorded \$0.1 million of legal and professional fees related to the ongoing restitution proceedings. For the nine months ended September 30, 2017, NATG discontinued operations recorded \$3.5 million of lease reserve adjustments and \$0.7 million of legal and professional fees related to the ongoing restitution proceedings.

In order to provide more meaningful information to investors, the Company is presenting its operating income (expenses) and operating margin on a non-GAAP basis in the “Supplemental Continuing Operations - Business Unit Summary Results” table. This non-GAAP presentation reflects the Misco Germany operations as discontinued operations for all periods presented. Additional Non-GAAP adjustments for intangible amortization and equity compensation are made to continuing operations. Management’s Discussion and Analysis that follows will include IPG, ETG, Corporate and other and discontinued operations.

Industrial Products

IPG sells a wide array of MRO products and other industrial and general business supplies which are marketed in North America. Many of these products are manufactured by other companies. Some products are manufactured for us to our own design and marketed under the trademarks: Global®, GlobalIndustrial.com®, Nexel®, Relius Elite®, Relius Solutions®, Interior®, Continental Dynamics®, and Hercules®. As previously stated, the Company sold its France-based IT value added reseller business on August 31, 2018 and, now, the Company's continuing operations are its IPG businesses in North America. Industrial accounted for 100% of our net sales for the three and nine months periods ended September 30, 2018 and 2017, respectively.

Europe Technology Products Group

ETG sold ICT products. These products were marketed primarily in France and to a much lesser extent Belgium. Substantially all of these products were manufactured by other companies. The Company sold its France-based IT value added reseller business on August 31, 2018. Prior and current year results of these divested operations, along with the associated gain on the sale, have been reclassified as discontinued operations.

Discontinued Operations

As disclosed above, the results of France operations sold in August 2018, any results of the SARL Businesses sold in 2017 and NATG B2B and Ecommerce business and the three remaining retail stores in operation at the time of the sale in 2015 are presented in discontinued operations in the accompanying financial statements.

See Notes 3 and 6 to the condensed consolidated financial statements for additional financial information about our business segments as well as information about geographic operations.

Operating Conditions

The North American industrial products market is highly fragmented and we compete against multiple distribution channels. IPG segment's 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.

The primary component of our operating expenses historically has been employee-related costs, which includes items such as wages, commissions, bonuses, employee benefits and equity based compensation, as well as marketing expenses, primarily comprised of digital marketing spend, and occupancy related charges associated with our distribution and call center facilities. We continually assess our operations to ensure that they are efficient, aligned with market conditions and responsive to customer needs.

As has been widely reported across the broader marketplace, there are a number of cost pressures that we are proactively navigating, including domestic and ocean freight capacity, increasing freight costs, a tight labor market resulting in employee hiring shortfalls, and tariffs on foreign sourced goods. We are implementing employee recruitment and retention initiatives, including market-based adjustments to our compensation programs; this will result in some cost structure increases within our distribution centers commencing in the fourth quarter. In addition, while we experienced minimal impact from the first two tariff lists thus far in 2018, the third list, which went into effect the last week of September, is more robust. We believe the timing and extent of any financial impact will be gradual as we sell through existing inventory purchased prior to the incremental tariffs, strategically increase prices

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to offset the incremental costs on certain products, and shift certain products to alternative sources where available. These cost pressures are not unique to us, and overall we expect selling prices in our market to rise. That said, with solid organic revenue growth and the flexibility in our model, we believe we remain on a path to deliver continued improvements in long term profitability as we further leverage our cost structure. See "Risk Factors - Recent Tariff Announcements".

In the discussion of our results of operations, 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.

The discussion of our results of operations and financial condition that follows will provide 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, 2017 and the other information provided in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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 2017 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, 2017. There have been no significant changes in the application of critical accounting policies or estimates during 2018. 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.

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. See Note 1 of the condensed consolidated financial statements, Recent Accounting Pronouncements.

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Highlights from Q3 2018 and Year to Date Q3 2018

The discussion of our results of operations and financial conditions that follows will provide information that will assist in understanding our financial statements and information about how certain accounting principles and estimates affect the condensed consolidated financial statements included herein.

Consolidated sales increased 15.4% to \$235.8 million for the three month period ended September 30, 2018 compared to 2017 and for the nine month period ended September 30, 2018 consolidated sales increased 13.7% to \$679.2 million compared to 2017.

On a constant currency basis, average daily sales increased for the three and nine month periods ended September 30, 2018 15.6% and 13.7%, respectively, compared to the same periods in 2017.

Consolidated operating income grew 47.2% to \$18.4 million for the three month period ended September 30, 2018 compared to 2017 and for the nine month period ended September 30, 2018 consolidated operating income increased 38.6% to \$47.8 million compared to 2017.

Net income per diluted share from continuing operations grew 33.3% to \$0.40 for the three month period ended September 30, 2018 compared to 2017 and grew 11.4% to \$0.98 for the nine month period ended September 30, 2018 compared to 2017.

Net income per diluted share from discontinued operations for the third quarter of 2018 and nine month periods ended September 30, 2018 was \$4.32 and \$4.59, respectively, primarily related to the book gain recognized on the sale of the France business and the inclusion of the 2018 France operating results in discontinued operations.

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GAAP Results of Operations

Three and Nine Months Ended September 30, 2018 compared to the Three and Nine Months Ended September 30, 2017

Key Performance Indicators* (in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2018	2017	% Change	2018	2017	% Change	
Net sales of continuing operations:							
IPG	\$235.8	\$204.4	15.4 %	\$679.2	\$597.3	13.7 %	
Consolidated net sales	\$235.8	\$204.4	15.4 %	\$679.2	\$597.3	13.7 %	
Consolidated gross profit	\$82.2	\$71.2	15.4 %	\$234.7	\$207.9	12.9 %	
Consolidated gross margin	34.9 %	34.8 %	0.1 %	34.6 %	34.8 %	(0.2)%	
Consolidated SD&A costs**	\$63.8	\$58.7	8.7 %	\$186.9	\$173.4	7.8 %	
Consolidated SD&A costs** as a % of net sales	27.1 %	28.7 %	(1.6)%	27.5 %	29.0 %	(1.5)%	
Operating income from continuing operations by segment:							
IPG	\$23.9	\$19.8	20.7 %	\$63.2	\$55.2	14.5 %	
Corporate and other	(4.7)	(7.0)	32.9 %	(14.6)	(20.0)	27.0 %	
NATG – continuing operations	(0.8)	(0.3)	(166.7)%	(0.8)	(0.7)	(14.3)%	
Consolidated operating income	\$18.4	\$12.5	47.2 %	\$47.8	\$34.5	38.6 %	
Operating margin from continuing operations by segment:							
IPG	10.1 %	9.7 %	0.4 %	9.3 %	9.2 %	0.1 %	
Consolidated operating margin from continuing operations	7.8 %	6.1 %	1.7 %	7.0 %	5.8 %	1.2 %	
Effective income tax rate	19.3 %	8.1 %	11.2 %	22.5 %	5.2 %	17.3 %	
Net income from continuing operations	\$15.1	\$11.3	33.6 %	\$37.2	\$32.9	13.1 %	
Net margin from continuing operations	6.4 %	5.5 %	0.9 %	5.5 %	5.5 %	0.0 %	
Net income (loss) from discontinued operations	\$163.7	\$0.0	0.0 %	\$174.4	\$(26.3)	763.1 %	

*excludes discontinued operations (See Note 3 of Notes to Condensed Consolidated Financial Statements).

**includes special charges (See Note 3 of Notes to Condensed Consolidated Financial Statements).

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SYSTEMAX INC.

Supplemental Continuing Operations

Business Unit Summary Results – Unaudited (In millions)

Industrial Products Group

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	
Sales	\$235.8	\$204.4	15.4 %	\$679.2	\$597.3	13.7 %
Average daily sales*	\$3.7	\$3.2	15.4 %	\$3.6	\$3.1	13.7 %
Gross profit	\$82.2	\$71.2	15.4 %	\$234.7	\$207.9	12.9 %
Gross margin	34.9 %	34.8 %		34.6 %	34.8 %	
Operating income (Non-GAAP)**	\$24.2	\$20.2	19.8 %	\$64.1	\$56.2	14.1 %
Operating margin (Non-GAAP)	10.3 %	9.9 %		9.4 %	9.4 %	
Corporate & Other						

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	
Operating expenses (Non-GAAP)**	\$(4.6)	\$(6.7)	31.3 %	\$(14.1)	\$(18.8)	25.0 %
Consolidated ^(1,2)						

	Quarter Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	
Sales	\$235.8	\$204.4	15.4 %	\$679.2	\$597.3	13.7 %
Gross profit	\$82.2	\$71.2	15.4 %	\$234.7	\$207.9	12.9 %
Gross margin	34.9 %	34.8 %		34.6 %	34.8 %	
Operating income (Non-GAAP)**	\$19.6	\$13.5	45.2 %	\$50.0	\$37.4	33.7 %
Operating margin (Non-GAAP)	8.3 %	6.6 %		7.4 %	6.3 %	

* Percentages are calculated using sales data in hundreds of thousands. In Q3 2018 and 2017, IPG had 63 selling days and for the first nine months of 2018 and 2017, IPG had 191 selling days.

** See Reconciliation of Segment and Consolidated GAAP Operating Income (Loss) from Continuing Operations to Segment and Consolidated Non-GAAP Operating Income (Loss) from Continuing Operations – Unaudited. On August 31, 2018, the Company closed on the sale of the France operations. Prior and current year results of these divested operations, along with the associated gain on the sale, have been classified as discontinued operations. On March 24, 2017, the Company closed on the sale of its European Technology Group businesses, other than its operations in France. Prior and current year results of these divested businesses, along with the associated loss on the sale recorded in 2017, have been classified as discontinued operations.

On December 1, 2015 the Company closed on the sale of certain assets of its North American Technology Group (“NATG”). Pursuant to this transaction, the Company continues to wind down the remaining operations of NATG during 2018. Costs of the wind down in 2018 and 2017 are included within continuing and discontinued operations. 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, fiscal years and quarters are described as if they ended on the last day of the respective calendar month. The actual fiscal quarter ended on September 29, 2018 and September 30, 2017. The third quarters of both 2018 and 2017 included 13 weeks and the first nine months of both 2018 and 2017 included 39 weeks.

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SYSTEMAX INC.

Reconciliation of Segment and Consolidated GAAP Operating Income (Loss) from Continuing Operations to Segment and Consolidated Non-GAAP Operating Income (Loss) from Continuing Operations – Unaudited
(In millions)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Industrial Products	\$23.9	\$19.8	\$63.2	\$55.2
Technology Products - NA	(0.8)	(0.3)	(0.8)	(0.7)
Corporate and Other	(4.7)	(7.0)	(14.6)	(20.0)
GAAP operating income	18.4	12.5	47.8	34.5
Non-GAAP adjustments:				
Industrial Products:				
Intangible asset amortization	0.3	0.3	0.8	0.8
Stock based compensation	0.0	0.1	0.1	0.2
Total Non-GAAP Adjustments – Industrial Products	0.3	0.4	0.9	1.0
Technology Products - NA:				
Reverse results of NATG included in GAAP continuing operations	0.8	0.3	0.8	0.7
Total Non-GAAP Adjustments: Technology Products NA	0.8	0.3	0.8	0.7
Corporate and Other:				
Stock based compensation	0.0	0.2	0.4	0.9
Reverse results of Germany included in GAAP continuing operations	0.1	0.1	0.1	0.3
Total Non-GAAP Adjustments: Corporate and Other	0.1	0.3	0.5	1.2
Industrial Products	24.2	20.2	64.1	56.2
Technology Products- NA	0.0	0.0	0.0	0.0
Corporate and Other	(4.6)	(6.7)	(14.1)	(18.8)
Non-GAAP operating income	\$19.6	\$13.5	\$50.0	\$37.4

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Management's discussion and analysis that follows will include IPG, Corporate and Other and discontinued operations. The discussion is based upon the GAAP Results of Operations table.

NET SALES

SEGMENTS

The IPG segment net sales benefited during the third quarter and nine months ended September 30, 2018 from continued strong demand across the business with solid performance in our managed sales channels, as well as continued generation of new customers through our targeted digital marketing efforts. Sales of our core categories, including material handling, storage and shelving, janitorial and maintenance and business furniture delivered low double digit gains, and its other smaller categories within its offering grew at a faster pace in aggregate, consistent with our product strategy and focus. IPG net sales also benefited from above market growth in its Canada business which delivered its seventh consecutive quarter of double digit growth. Canada sales were up approximately 32.2%, 38.1% on a constant currency basis, for the quarter ended September 30, 2018 compared to the same period in 2017 and increased 33.0%, 31.3% on a constant currency basis for the nine months ended September 30, 2018 compared to the same period of 2017. U.S. revenue was up 14.7% and 12.9%, respectively, in the quarter and nine month period ended September 30, 2018 compared to the same period in 2017. On a constant currency basis, IPG average daily sales increased 15.6% for the third quarter of 2018 compared to the same period in 2017 and increased 13.7% for the nine months ended September 30, 2018 compared to 2017. IPG segment had 63 selling days in the third quarter of 2018 and 2017 and for the nine months ended September 30, 2018 and 2017, IPG had 191 selling days.

GROSS MARGIN

Gross margin is dependent on variables such as product mix including sourcing and category, competition, pricing strategy, cooperative advertising funds classified as a reduction to cost of sales, free freight and freight discounting arrangements, inventory valuation and obsolescence and other variables, any or all of which may result in fluctuations in gross margin.

The IPG segment gross margin increased 10 basis points in the third quarter of 2018 from the third quarter of 2017 reflecting continued positive product and selling channel mix. Gross margin improved 30 basis points compared to the second quarter of 2018. For the nine months ended September 30, 2018 IPG gross margin decreased 20 basis points as compared to the same period in 2017. As has historically been the case, fourth quarter gross margin is expected to be slightly lower than the second or third quarter margin primarily the result of product mix.

SELLING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES ("SD&A"), EXCLUDING SPECIAL CHARGES

The IPG segment SD&A costs as a percentage of sales improved in the three and nine months ended September 30, 2018 as compared to the third quarter of 2017 primarily driven by improved leverage within our fixed cost structure and good spend discipline in regards to marketing and general operating expenses. In total, the IPG segment SD&A as a percentage of sales decreased by 40 basis points in the third quarter and 30 basis points for the nine months ended September 30, 2018 compared to the same periods of 2017. In the third quarter of 2018, the IPG segment incurred increased salary and related costs of approximately \$3.0 million, increased net internet advertising spend of approximately \$0.7 million and increased contract services and IT costs of approximately \$1.6 million. For the nine months ended September 30, 2018, the IPG segment incurred increased salary and related costs of approximately \$6.9 million, increased net internet advertising spend of approximately \$4.5 million and increased contract services and IT costs of approximately \$4.4 million.

Corporate and other segment costs decreased approximately \$2.3 million and \$5.4 million, respectively, in the third quarter and nine months ended September 30, 2018 as compared to the same periods of 2017 primarily related to decreased incentive compensation costs, legal and professional fees and the recovery of VAT escrow funds of \$0.4 million.

SPECIAL GAINS AND CHARGES, CONTINUING AND DISCONTINUED OPERATIONS

In the third quarter and for the nine months ended September 30, 2018 the Company recorded a pre-tax book gain on the sale of the France business, which was reported within the discontinued operations of the Company's ETG segment, of approximately \$178.2 million. The pre-tax book gain included proceeds from the sale of approximately \$267.3 million offset by the \$82.5 million of net assets sold and by expenses related to the sale of approximately \$6.6 million. These expenses included \$5.1 million of deal transaction costs and \$1.5 million for accelerated amortization expense of restricted stock units and stock options. Of the expenses mentioned, \$5.1 million of deal transaction costs required or will require the use of cash.

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In the third quarter of 2018, there were a de minimis amount of legal and professional fees incurred related to the wind down of the SARL Businesses. For the nine months ended September 30, 2018, the Company recorded approximately \$0.2 million in recoveries of escrow funds, \$0.1 million of accelerated depreciation charges and \$0.1 million for legal and professional fees related to the wind down of the SARL Businesses, within discontinued operations. The impact of the previously mentioned charges and recoveries related to the wind down of the SARL Businesses for the nine months ended September 30, 2018, net to zero. Of the previously mentioned charges, legal and professional fees required the use of cash. The Company expects that total additional charges related to the wind down of the SARL businesses will be less than \$1.0 million.

In the third quarter of 2018, the Company's NATG discontinued operations received \$0.3 million in restitution receipts from a former executive of NATG, recorded approximately \$0.1 million in accrual adjustments related to the ongoing restitution proceedings and recorded \$1.8 million in lease reserve adjustments related to their leased facilities, within discontinued operations. For the nine months ended September 30, 2018, the Company's NATG discontinued operations received \$1.0 million in restitution receipts from a former executive of NATG, recorded lease reserves adjustments of approximately \$1.7 million related to their leased facilities, received \$0.1 million in vendor settlements and recorded legal and professional fees, related to the ongoing restitution proceedings, of \$0.1 million. The impact of the previously mentioned charges and recoveries related to the NATG discontinued operations totaled \$0.7 million for the nine months ended September 30, 2018. The Company expects that total additional charges related to the sale of the NATG business after this quarter will be less than \$1.0 million and that these charges will be presented in discontinued operations. Additional costs may be incurred in NATG for outstanding leased facilities as they are settled or sublet (see Note 1). Most of these anticipated costs will require the use of cash. Amounts that are unpaid at September 30, 2018 are recorded in Accrued expenses and other current liabilities and Other liabilities (long term) in the accompanying Condensed Consolidated Balance Sheets.

In the third quarter and for the nine months ended September 30, 2018, the Company's NATG continuing operations recorded approximately \$0.8 million of special charges for updating our future lease cash flows expectations related to previously exited retail stores and a warehouse.

In the third quarter and for the nine months ended September 30, 2018, the Company's German continuing operations recorded approximately \$0.1 million of special charges for updating future lease cash flows expectations related to a previously exited lease obligation.

Total special charges incurred, within discontinued operations, in the third quarter of 2017 totaled approximately \$0.3 million, of which, \$0.2 million related to the discontinued operations of the SARL business related to a transitional services agreement and, within NATG discontinued operations, approximately \$0.1 million of professional costs were incurred related to the ongoing restitution proceedings against certain former NATG executives.

Total special charges incurred, within discontinued operations, for the nine months ended September 30, 2017 totaled approximately \$28.6 million. The combined loss on the sale of the SARL Businesses totaled \$24.4 million, which included an \$8.2 million loss on the sale of net assets, \$14.4 million of translation adjustments, and \$1.0 million of legal, professional and other costs, \$0.3 million of severance and other personnel costs and \$0.3 million of accelerated depreciation charges and \$0.2 million related to a transitional services agreement. In addition, NATG discontinued operations incurred special charges of \$4.2 million, which included approximately \$3.5 million primarily related to updating our future lease cash flows and \$0.7 million related to the ongoing restitution proceedings against certain former NATG executives.

Total special charges incurred, within continuing operations, in the third quarter of 2017 and nine months ended September 30, 2017 totaled \$0.1 million and \$0.3 million, respectively. These charges related to updating our future lease cash flows expectations related to our previously exited retail stores.

OPERATING MARGIN

IPG's operating margin for the three and nine months period ended September 30, 2018 increased by 40 and 10 basis points, respectively, compared to the same periods in 2017. The increase was driven by improved leverage within our fixed cost structure and good spend discipline in regards to marketing and general operating expenses. This increase was partially offset by an increase in distribution center staffing levels in an effort to keep up with increasing demand on in-stock items.

The decrease in Corporate and other expenses for the third quarter and year to date 2018 primarily resulted from decreased salary costs, legal and professional fees and the recovery of VAT escrow funds of \$0.4 million.

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INTEREST AND OTHER (INCOME) EXPENSE, NET

Interest and other (income) expense, net from continuing operations was \$0.3 million income compared to \$0.2 million expense in the third quarter of 2018 and 2017, respectively, primarily attributable to the interest earned on our short term investments from the cash repatriated to the United States from the sale of the France business. For the nine months ended September 30, 2018 and 2017, interest and other (income) expense, net from continuing operations was approximately \$0.2 million, primarily attributable to the interest earned on our short term investments from the cash repatriated to the United States from the sale of the France business offset by unused line of credit fees.

INCOME TAXES

In the nine month period ended September 30, 2018, the Company reported income taxes in continuing operations of approximately \$10.8 million related to its U.S. and India operations as well as tax expense for certain U.S. states. The Company's tax expense for 2018 was favorably impacted by tax benefits of approximately \$1.7 million related to stock-based compensation.

For Canadian tax purposes, the Company has full valuation allowances against its deferred tax assets, including its net operating losses, and no benefit for loss is recorded.

Financial Condition, Liquidity and Capital Resources

Our primary liquidity needs are to support working capital requirements in our business, including the wind-down activities of the sold NATG businesses, funding the recently declared and any future dividends, funding capital expenditures, continued investment in upgrading and expanding our technological capabilities and information technology infrastructure, 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 our credit facility 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 may 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):

	September 30, 2018	December 31, 2017	\$ Change
Cash	\$ 302.8	\$ 184.5	\$ 118.3
Accounts receivable, net	\$ 87.9	\$ 73.1	\$ 14.8
Inventories	\$ 91.2	\$ 88.2	\$ 3.0
Prepaid expenses and other current assets	\$ 8.7	\$ 3.3	\$ 5.4
Accounts payable	\$ 105.2	\$ 108.1	\$(2.9)
Dividend payable	\$ 0.0	\$ 55.7	\$(55.7)
Accrued expenses and other current liabilities	\$ 38.7	\$ 38.5	\$ 0.2
Working capital	\$ 346.7	\$ 178.3	\$ 168.4

Our working capital increased \$168.4 million primarily related to the proceeds from the sale of the France business offset by the payment of our regular and special dividends during the nine months ended September 30, 2018 totaling \$49.5 million. Accounts receivable days outstanding were 33.7 in 2018 compared to 38.4 in 2017. Inventory turns were 6.5 in 2018 and 2017 and accounts payable days outstanding were 69.2 in 2018 compared to 75.7 in 2017. We expect that future accounts receivable, inventory and accounts payable balances will fluctuate with net sales and the

product mix of our net sales.

Net cash provided by continuing operations was \$15.2 million resulting from changes in our working capital accounts, which used \$26.6 million in cash compared to \$0.9 million used in 2017, primarily the result of the changes in open accounts receivable and accounts payable balances and changes in accrued expenses, other current liabilities and non-current liabilities balances. Cash generated from net income adjusted by other non-cash items provided \$41.8 million compared to \$38.9 million provided by these items in 2017, primarily related to the net income from continuing operations in 2018. Net cash used in operating activities from discontinued operations was \$35.1 million for the nine months ended September 30, 2018 compared to \$4.6 million used for the nine months ended September 30, 2017, respectively.

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Net cash used in investing activities from continuing operations totaled \$2.9 million primarily for a warehouse lighting project, warehouse lift trucks and batteries, information technology equipment and leasehold improvements for the IPG segment. Net cash used in investing activities in 2017 totaled \$1.3 million and included warehouse pick modules and mobile sales application software for the IPG segment. Net cash provided by discontinued operations was \$249.6 million for the nine months ended September 30, 2018 primarily from cash received on the sale of the France business of \$250.0 million, net of cash sold of \$17.3 million, offset by \$0.4 million of fixed asset purchases from the France business during the first eight months of 2018 compared to \$0.3 million used in 2017.

Net cash used in financing activities totaled \$111.5 million primarily related to the special dividend and regular quarterly dividend payments in total of \$105.2 million. These payments included \$55.7 million dividend declared in December 2017 but paid in January 2018, the special dividend of \$37.2 million paid in June 2018 and the regular quarterly dividends of \$4.1 million for each of the three quarters of 2018. Proceeds from stock option exercises of \$4.2 million that are offset by payments of payroll taxes on stock based compensation through shares withheld of \$1.4 million. In 2017, cash used in financing activities totaled \$8.0 million and included approximately \$9.2 million for dividends paid, \$0.1 million used to repay outstanding capital lease obligations, \$1.6 million in stock option exercises offset by payments of payroll taxes on stock based compensation through shares withheld of \$0.3 million.

The Company maintains a \$75.0 million secured revolving credit facility with one financial institution, which has a five year term, maturing on October 28, 2021 and provides for borrowings in the United States. 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. 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 the inventory advance rate computed as the lesser of 60% or 85% of the net orderly liquidation value ("NOLV"). Borrowings are secured by substantially all of the Borrower's assets, including all accounts receivable, inventory and certain other assets, subject to limited exceptions, including the exclusion of certain foreign assets from the collateral. The interest rate under the amended and restated facility is computed at applicable market rates based on the London interbank offered rate ("LIBOR"), the Federal Reserve Bank of New York ("NYFRB") or the Prime Rate, plus an applicable margin. The applicable margin varies based on borrowing base availability. As of September 30, 2018, eligible collateral under the credit agreement was \$75.0 million, total availability was \$73.4 million, total outstanding letters of credit were \$2.3 million, excess availability was \$71.1 million and there were no outstanding borrowings. The Company was in compliance with all of the covenants of credit agreement in place as of September 30, 2018.

We also have certain obligations with various parties that include commitments to make future payments. Our principal commitments at September 30, 2018 consisted of payments under operating leases for certain of our real property and equipment and payments under employment, product and other service agreements.

Levels of earnings and cash flows are dependent on factors such as consolidated gross margin and selling, distribution and administrative costs as a percentage of sales, product mix and relative levels of domestic and foreign sales. Unusual gains or expense items, such as special (gains) charges and settlements, 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 business segments 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.

The Company has financial obligations related to leased facilities of its former NATG business of approximately \$17.5 million. Some of these leased facilities have been sublet and others are being marketed for sublet. The Company has engaged nationally recognized real estate firms to market these facilities and to assist in establishing the reserves the Company carries for these lease obligations. As of September 30, 2018, the Company has a reserve of \$6.7 million for these lease obligations. The reserves established consider the total lease obligations of \$17.5 million, current sublet income streams and projected sublet income streams. On a quarterly basis these reserves are re-evaluated particularly related to the projected sublease income streams. In the third quarter of 2018, the Company recorded lease reserves of approximately \$2.6 million for these leased facilities, of which \$0.8 million was recorded within continuing operations and \$1.8 million within discontinued operations and for the nine months ended September 30, 2018, the Company recorded lease reserves adjustments of \$2.5 million, of which \$0.8 million was recorded within continuing operations and \$1.7 million was recorded within discontinued operations. The Company expects that further adjustment may be needed in the future for the remaining facilities if current sublease assumptions do not materialize.

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The expenses, capital expenditures and exit activities described above will require significant levels of liquidity, which we believe can be adequately funded from our currently available cash resources. In 2018 we anticipate capital expenditures of up to \$8.0 million, though at this time we are not contractually committed to incur these expenditures. Over the past several years we have engaged in 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 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 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 maintain our cash and cash equivalents in money market funds or their equivalent that have maturities of less than three months and in non-interest bearing accounts that partially offset banking fees. As of September 30, 2018, we had no investments with maturities of greater than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk. At September 30, 2018 cash balances held in foreign subsidiaries totaled approximately \$3.5 million. These balances are held in local country banks. The Company intends to repatriate excess foreign cash balances when available and when it is tax efficient. The Company had in excess of \$370 million of liquidity (cash and undrawn line of credit) in the U.S. as of September 30, 2018, which is sufficient to fund its U.S. operations and capital needs, including dividend payments, for the foreseeable future.

Off-balance Sheet Arrangements and Contractual Obligations.

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.

The following table updates the contractual obligations of the Company for future principal payments on our debt, minimum rental payments on our non-cancelable operating leases and minimum payments on our other purchase obligations as of September 30, 2018 to reflect the sale of our France business and the termination agreement for the lease on the Jefferson warehouse (in millions):

Contractual Obligations:	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Capital lease obligations	\$0.2	\$0.1	\$0.1	\$0.0	\$0.0
Non-cancelable operating leases, net of subleases	93.2	15.6	31.7	21.1	24.8
Purchase & other obligations	23.6	4.4	10.1	9.1	0.0
Total contractual obligations	\$117.0	\$20.1	\$41.9	\$30.2	\$24.8

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 (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 limited involvement with derivative financial instruments and do not use them for trading purposes. 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, 2018 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 consists of short-term borrowings under our credit facilities. As of September 30, 2018, there were no outstanding balances under our

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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, 2018. 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, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are from time to time involved in various lawsuits, claims, investigations and proceedings which may include commercial, employment, tax, customs and trade, customer, vendor, personal injury, creditors rights and health and safety law matters, which are handled and defended in the ordinary course of business. In addition, the Company is from time to time subjected to various assertions, claims, proceedings and requests for damages and/or indemnification concerning sales channel practices and intellectual property matters, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells or that are incorporated in the Company's e-commerce sales channels as well as trademark/copyright infringement claims. The Company is also audited by (or has initiated voluntary disclosure agreements with) various U.S. Federal and state authorities, as well as Canadian authorities, concerning potential income tax, sales tax and/or "unclaimed property" liabilities. These matters are in various stages of investigation, negotiation and/or litigation. The Company is also being audited by an entity representing 23 states seeking recovery of "unclaimed property" and has received separate demands from 20 states requesting payments of their claimed amounts. The Company is complying with the unclaimed property audit, is providing requested information and is corresponding with the states regarding possible further discussions. The Company intends to vigorously defend these matters and believes it has strong defenses. In September 2017 the Company and certain subsidiaries comprising its former NATG "Tiger" consumer electronics business were sued in United States District Court, Northern District of California by a software publisher alleging that the NATG subsidiaries violated certain contractual sales channel restrictions resulting in claims of breach of contract and trademark/copyright infringement. The matter is at a very early stage and although Systemax Inc. has been dismissed from the case, the Company is continuing to assess the remaining claims against and the defenses available to the remaining subsidiary defendants; the Company cannot predict the outcome of this matter and believes the potential damages, if any, cannot be estimated at this time.

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 position 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 regularly 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. In this regard, the Company establishes accrual estimates for its various lawsuits, claims, investigations and proceedings when it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and the loss can be reasonably estimated. At September 30, 2018 the Company has established accruals for certain of its various lawsuits, claims, investigations and proceedings based upon estimates of the most likely outcome in a range of loss or the minimum amounts in a range of loss if no amount within a range is a more likely estimate. The Company does not believe that at September 30, 2018 any reasonably possible losses in excess of the amounts accrued would be material to the financial statements.

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Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 (the “Annual Report”), which could materially affect our business, financial condition or future results. There have been no material changes in our risk factors from those disclosed in our Annual Report, except for the risk factors set forth below.

Recent Tariff Announcements

Significant tariffs or other restrictions recently placed on imports from China, as well as any retaliatory trade measures taken by China or other trading partners, could materially adversely impact our revenue and results of operations. Our industry is subject to risks associated with U.S. and foreign laws relating to importing products, including quotas, duties, tariffs or taxes, as well as other restrictions, which could adversely affect our ability to import products at desired cost or volume levels.

As has been widely reported across the broader marketplace, during 2018 the United States enacted three sets of tariffs on a variety of foreign sourced goods. While we experienced minimal impact from the first two tariff lists during 2018, the third list, which went into effect at the end of the third quarter of 2018, imposes tariffs on a more robust set of products and does impact a subset of the products we carry and source directly from China. These tariffs have the potential to increase our costs of procurement, both directly as a result of the tariffs, and indirectly as a result of this action's effect on the general economy. We believe the timing and extent of any financial impact of the announced tariffs will be gradual as we sell through existing inventory purchased prior to the tariffs being implemented, strategically increase prices to offset the incremental costs on certain products and shift certain products to alternative sources where available. There can be no assurances that we will be able to effectively or expeditiously mitigate these challenges which would result in an adverse effect on our financial results. However, we do not believe that we will be disproportionately impacted by these costs and we will continue to evaluate marketplace conditions and implement other actions or strategies as the need arises.

Furthermore, we cannot predict whether additional U.S. and foreign customs quotas, duties (including antidumping or countervailing duties), tariffs, taxes or other charges or restrictions, requirements as to where raw materials must be purchased, additional workplace regulations or other restrictions on our imports will be imposed in the future and if so, what effect such actions would have on our costs of operations.

Item 5. Issuer Purchases of Equity Securities

On July 31, 2018 the Company's Board of Director's approved a share repurchase program with a repurchase authorization of up to two million shares of the Company's common stock. Under the share repurchase program, the Company is authorized to purchase shares from time to time through open market purchases, tender offerings or negotiated purchases, subject to market conditions and other factors. During the third quarter of 2018, the Company repurchased 232,550 common shares for approximately \$9.1 million from certain executive officers and directors. Details of the purchase is as follows:

Fiscal Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
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July	232,550	\$38.96	232,550	1,767,450
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Item 6. Exhibits

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.CAL XBRL 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

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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 7, 2018 By: /s/ Lawrence Reinhold
Lawrence Reinhold
President and Chief Executive Officer

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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 7, 2018 By: /s/ Thomas Clark

Thomas Clark

Vice President and Chief Financial Officer