

SYSTEMAX INC  
Form 10-Q  
May 08, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-13792

Systemax Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

11-3262067  
(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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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 May 1, 2012 was 36,470,889.

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### Available Information

We maintain an internet web site at [www.systemax.com](http://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](http://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](http://www.systemax.com).

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Systemax Inc.

Condensed Consolidated Balance Sheets

(In thousands)

	March 31, 2012 (Unaudited)	December 31, 2011
<b>ASSETS:</b>		
Current assets:		
Cash	\$ 110,987	\$ 97,254
Accounts receivable, net	281,536	268,980
Inventories	387,222	372,244
Prepaid expenses and other current assets	20,711	18,198
Deferred income taxes	20,526	20,480
Total current assets	820,982	777,156
Property, plant and equipment, net	69,259	70,699
Deferred income taxes	14,069	13,948
Goodwill and intangibles	47,460	47,838
Other assets	4,989	4,909
Total assets	\$ 956,759	\$ 914,550
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
Current liabilities:		
Accounts payable	\$ 365,797	\$ 336,550
Accrued expenses and other current liabilities	72,574	72,410
Deferred income tax liabilities	10,960	10,940
Current portion of long-term debt	2,588	2,552
Total current liabilities	451,919	422,452
Long-term debt	6,561	7,133
Deferred income tax liabilities	16,256	16,233
Other liabilities	15,285	14,440
Total liabilities	490,021	460,258
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock	-	-
Common stock	389	389
Additional paid-in capital	180,966	180,538
Treasury stock	(29,634)	(30,520)
Retained earnings	315,017	307,934
Accumulated other comprehensive loss	-	(4,049)
Total shareholders' equity	466,738	454,292

Total liabilities and shareholders' equity	\$	956,759	\$	914,550
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See Notes to Condensed Consolidated Financial Statements.

Systemax Inc.  
Condensed Consolidated Statements of Operations (Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2012	2011
Net sales	\$ 913,578	\$ 929,867
Cost of sales	782,924	799,369
Gross profit	130,654	130,498
Selling, general & administrative expenses	118,225	111,369
Special charges	1,865	504
Operating income	10,564	18,625
Foreign currency exchange gain	(215)	(1,383)
Interest and other income, net	(182)	(126)
Interest expense	449	530
Income before income taxes	10,512	19,604
Provision for income taxes	3,429	6,038
Net income	\$ 7,083	\$ 13,566
Net income per common share:		
Basic	\$ .19	\$ .37
Diluted	\$ .19	\$ .36
Weighted average common and common equivalent shares:		
Basic	36,836	37,157
Diluted	37,051	37,708

See Notes to Condensed Consolidated Financial Statements.

Systemax Inc.  
 Condensed Consolidated Statements of Comprehensive Income (Unaudited)  
 (In thousands)

	Three Months Ended March 31,	
	2012	2011
Net income	\$ 7,083	\$ 13,566
Other comprehensive income:		
Foreign currency translation gain	4,049	4,955
Net income	\$ 11,132	\$ 18,521

See Notes to Condensed Consolidated Financial Statements.

Systemax Inc.  
Condensed Consolidated Statements of Cash Flows (Unaudited)  
(In thousands)

	Three Months Ended	
	March 31,	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,083	\$ 13,566
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,453	4,245
(Benefit) provision for deferred income taxes	(309)	105
Provision for returns and doubtful accounts	784	627
Compensation expense related to equity compensation plans	907	533
Excess tax benefit from exercises of stock options	(420)	(173)
Loss on dispositions and abandonment	28	27
Changes in operating assets and liabilities:		
Accounts receivable	(7,928)	2,094
Inventories	(12,892)	(522)
Prepaid expenses and other current assets	(2,435)	3,725
Accounts payable, accrued expenses and other current liabilities	25,505	(14,498)
Net cash provided by operating activities	14,776	9,729
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(1,970)	(3,715)
Proceeds from disposals of property, plant and equipment	18	10
Net cash used in investing activities	(1,952)	(3,705)
<b>Cash flows from financing activities:</b>		
Borrowings on credit facility and short term debt	-	25,466
Repayments of borrowings on credit facility and short term debt	-	(10,861)
Repayments of capital lease obligations	(631)	(654)
Proceeds from issuance of common stock	217	175
Excess tax benefit from exercises of stock options	420	173
Net cash provided by financing activities	6	14,299
Effects of exchange rates on cash	903	(116)
Net increase in cash	13,733	20,207
Cash – beginning of period	97,254	92,077
Cash – end of period	\$ 110,987	\$ 112,284
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Acquisitions of equipment through capital leases	\$ 95	\$ 4

See Notes to Condensed Consolidated Financial Statements.





Systemax Inc.  
Condensed Consolidated Statement of Shareholders' Equity (Unaudited)  
(In thousands)

	Common Stock		Additional	Treasury	Retained	Accumulated
	Number of	Amount	Paid-in	Stock,	Earnings	Other
	Shares		Capital	At Cost		Comprehensive
	Outstanding					Loss
Balances, January 1, 2012	36,399	\$ 389	\$ 180,538	\$ (30,520)	\$ 307,934	\$ (4,049)
Stock-based compensation expense			907			
Exercise of stock options	72		(669)	886		
Surrender of fully vested options			(228)			
Income tax benefit on stock-based compensation			418			
Change in cumulative translation adjustment						4,049
Net income					7,083	
Balances, March 31, 2012	36,471	\$ 389	\$ 180,966	\$ (29,634)	\$ 315,017	\$ -

See Notes to Condensed Consolidated Financial Statements.

Systemax Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

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

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 March 31, 2012 and the results of operations for the three month periods ended March 31, 2012 and 2011, statements of comprehensive income for the three month periods ended March 31, 2012 and 2011, cash flows for the three month periods ended March 31, 2012 and 2011 and changes in shareholders' equity for the three month period ended March 31, 2012. The December 31, 2011 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, 2011.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2011 and for the year then ended included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. The results for the three month periods ended March 31, 2012 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 first quarter ended on March 31, 2012. The first quarters of both 2012 and 2011 included 13 weeks.

2. Net Income per Common Share

Net income per common share - basic was calculated based upon the weighted average number of common shares outstanding during the respective periods presented using the two class method of computing earnings per share. The two class method was used as the Company has outstanding restricted stock with rights to dividend participation for unvested shares. Net income per common share - diluted was calculated based upon the weighted average number of common shares outstanding and included the equivalent shares for dilutive options and restricted stock awards outstanding during the respective periods, including unvested options. The dilutive effect of outstanding options and restricted stock issued by the Company is reflected in net income per share - diluted using the treasury stock method. Under the treasury stock method, options will only have a dilutive effect when the average market price of common stock during the period exceeds the exercise price of the options. The weighted average number of stock options outstanding included in the computation of diluted earnings per share was 0.2 million and 0.5 million shares for the three months ended March 31, 2012 and 2011, respectively. The weighted average number of restricted stock awards included in the computation of diluted earnings per share was 0.1 million and 0.2 million shares for the three months ended March 31, 2012 and 2011, respectively. The weighted average number of stock options outstanding excluded from the computation of diluted earnings per share was 0.7 million and 0.7 million shares for the three

months ended March 31, 2012 and 2011, respectively, due to their antidilutive effect.

3. Credit Facilities and Long Term Debt

The Company maintains a \$125.0 million (which may be increased to \$200.0 million, subject to certain conditions) secured revolving credit agreement with a group of financial institutions which provides for borrowings in the United States. The credit facility has a five year term and expires in October 2015. Availability is subject to a borrowing base formula that takes into account eligible receivables and eligible inventory. Borrowings are secured by substantially all of the Company's assets, including accounts receivable, inventory and certain other assets, subject to limited exceptions. The credit agreement contains certain operating, financial and other covenants, including limits on annual levels of capital expenditures, availability tests related to payments of dividends and stock repurchases and fixed charge coverage tests related to acquisitions. The borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and up to 40% of qualified inventories. The interest rate under this facility is computed at applicable market rates based on LIBOR or the Prime Rate, plus an applicable margin. The revolving credit agreement requires that a minimum level of availability be maintained. If such availability is not maintained, the Company will be required to maintain a fixed charge coverage ratio (as defined). The applicable margin varies based on borrowing base availability. As of March 31, 2012, eligible collateral under the agreement was \$119.5 million, total availability was \$110.4 million, total outstanding letters of credit were \$9.1 million and there were no outstanding advances. The Company was in compliance with all of the covenants under this facility as of March 31, 2012.

The Company's Inmac-WStore subsidiary maintains a secured revolving credit agreement with a financial institution in France which is secured by Inmac-WStore accounts receivable balances. Available amounts for borrowing under this facility include all accounts receivable balances not over 60 days past due reduced by the greater of €4.0 million or 10% of the eligible accounts receivable. As of March 31, 2012, there was availability under this credit facility of approximately €19.2 million (\$25.6 million) and there were no outstanding borrowings. Under this agreement the Company is subject to certain non-financial covenants with which it was in compliance at March 31, 2012. This credit facility will be terminated on June 9, 2012.

The Company (through a subsidiary) has an outstanding Bond financing with the Development Authority of Jefferson, Georgia (the "Authority"). The Bonds were issued by the Authority and purchased by GE Government Finance Inc., and mature on October 1, 2018. The proceeds from Bond were used to finance capital equipment purchased for the Company's distribution facility located in Jefferson, Georgia. The purchase and installation of the equipment for the facility was completed by December 31, 2011. Pursuant to the transaction, the Company transferred to the Authority, for consideration consisting of the Bonds proceeds, ownership of the equipment and the Authority leased the equipment to the Company's subsidiary pursuant to a capital equipment lease expiring October 1, 2018. Under the capital equipment lease the Company has the right to acquire ownership of the equipment at any time for a purchase price sufficient to pay off all principal and interest on the Bonds, plus \$1.00. As of March 31, 2012 there was approximately \$7.2 million outstanding against this lease facility.

#### 4. Special charges

In the first quarter of 2012, the Company's Industrial Products segment incurred approximately \$0.3 million of facility exit costs for severance and personnel costs and other exit costs related to the planned closing and relocation of one of our smaller distribution centers to a new, significantly larger distribution and call center. These costs were recorded in cost of sales within the Industrial Products segment. The Company anticipates incurring minimal additional costs related to this facility closing and relocation.

The following table details the associated liabilities related to this plan (in thousands):

	Severance and Personnel Costs		Other Exit Costs	Total
Balance January 1, 2012	\$	-	\$ -	\$ -
Charged to expense		254	17	271
Paid or otherwise settled		-	-	-
Balance March 31, 2012	\$	254	\$ 17	\$ 271

In the first quarter of 2012, the Company's North America Technology Products segment incurred \$1.1 million of costs associated with senior staffing changes for which no future services will be rendered and also incurred \$0.5 million of additional legal and professional fees related to the ongoing follow up of the previously disclosed completed investigation and settlement with a former officer and director and in pursuing related matters.

#### 5. Segment Information

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

Our Technology Products segment sells computers, computer supplies and consumer electronics which are marketed in North America, Puerto Rico and Europe. Most of these products are manufactured by other companies; however,

we do offer a selection of products that are manufactured for us to our own design and marketed on a private label basis.

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

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

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

The Company's Industrial Products and Technology Products segments sell dissimilar products. Industrial products are generally higher in price, lower in volume and higher in product margin. Technology products are generally higher in volume, lower in price and lower in product margin. This results in higher operating margin for the Industrial Products segment. Each segment incurs specifically identifiable selling, general and administrative expenses, with the selling, general and administrative expenses for the Industrial Products segment being higher as a percentage of sales than those of the Technology Products segment as a result of the Industrial Products segment having a longer selling cycle than the Technology Products segment.

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

	Three Months Ended March 31,	
	2012	2011
Net sales:		
Technology Products	\$ 821,889	\$ 858,263
Industrial Products	90,378	70,835
Corporate and other	1,311	769
Consolidated	\$ 913,578	\$ 929,867
Operating income (loss):		
Technology Products	\$ 8,799	\$ 17,740
Industrial Products	8,248	6,857
Corporate and other expenses	(6,483)	(5,972)
Consolidated	\$ 10,564	\$ 18,625

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

	Three Months Ended March 31,	
	2012	2011
Net sales:		
United States	\$ 562,182	\$ 584,081
United Kingdom	132,416	117,999
Other Europe	166,097	167,545
Other North America	52,883	60,242
Consolidated	\$ 913,578	\$ 929,867

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

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

	Three Months Ended March 31,			
	2012	%	2011	%

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Product Category:						
Computers	\$	262.2	29%	\$	218.7	24%
Computer accessories & software		259.6	28%		270.6	29%
Consumer electronics		167.0	18%		205.6	22%
Computer components		108.5	12%		142.5	15%
Industrial products		90.4	10%		70.8	8%
Other		25.9	3%		21.7	2%
Consolidated	\$	913.6	100.0%	\$	929.9	100.0%



6.

Legal Proceedings

The Company and its subsidiaries are involved in various lawsuits, claims, investigations and proceedings including commercial, employment, consumer, personal injury and health and safety law matters, which are being handled and defended in the ordinary course of business. In addition, the Company is subject to various assertions, claims, proceedings and requests for indemnification concerning intellectual property, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells. The Company is also audited by (or has initiated voluntary disclosure agreements with) numerous governmental agencies in various countries, including U.S. Federal and state authorities, concerning potential income tax, sales tax and unclaimed property liabilities. These matters are in various stages of investigation, negotiation and/or litigation, and are being vigorously defended.

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

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

Forward Looking Statements

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

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

contribute to or cause such differences.

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

#### Overview

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

Our Technology Products segment sells computers, computer supplies and consumer electronics which are marketed in North America, Puerto Rico and Europe. Most of these products are manufactured by other companies. Some products are manufactured for us to our own design and marketed on a private label basis. For the three months ended March 31, 2012, Technology products accounted for 90% of our net sales.

Our Industrial Products segment sells a wide array of industrial products and supplies which are marketed in North America. Most of these products are manufactured by other companies. Some products are manufactured for us to our own design and marketed on a private label basis. Industrial products accounted for 10% of our net sales for the three months ended March 31, 2012. In both of our Technology Products and Industrial Products segments, we offer our customers a broad selection of products, prompt order fulfillment and extensive customer service.

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

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

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

The discussion of our results of operations and financial condition that follows 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, 2011 and the other information provided in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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

#### 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 2011 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 reorganization and other costs. 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, 2011. There have been no significant changes in the application of critical accounting policies or estimates during 2012. Management believes that full consideration has been given to all relevant circumstances that we may be subject to, and the condensed consolidated financial statements of the Company accurately reflect management's best estimate of the consolidated results of operations, financial position and cash flows of the Company for the periods presented. Because of the uncertainty in these estimates, actual results could differ from estimates used in applying the critical accounting policies. We are not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect the Company's financial condition or results of operations.



#### Recent Accounting Pronouncements

Public companies in the United States are subject to the accounting and reporting requirements of various authorities, including the Financial Accounting Standards Board (“FASB”) and the Securities and Exchange Commission (“SEC”). These authorities issue numerous pronouncements, most of which are not applicable to the Company’s current or reasonably foreseeable operating structure. Below are the new authoritative pronouncements that management believes are relevant to the Company’s current operations.

In June 2011, the FASB issued amended guidance related to comprehensive income. The amended guidance requires the presentation of items of net income, items of other comprehensive income and total comprehensive income in one continuous statement or in two separate but consecutive statements. Presentation of other comprehensive income as part of the statement of stockholders’ equity is no longer allowed under the amended guidance. The amended guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this guidance in January 2012.

## Results of Operations

Three Months Ended March 31, 2012 compared to the Three Months Ended March 31, 2011

Key Performance Indicators (in millions):

	Three Months Ended		% Change
	March 31, 2012 2012	2011	
Net sales by segment:			
Technology Products	\$ 821.9	\$ 858.3	(4.2)%
Industrial Products	90.4	70.8	27.7%
Corporate and other	1.3	.8	62.5%
Consolidated net sales	\$ 913.6	\$ 929.9	(1.8)%
Net sales by geography:			
North America	\$ 615.1	\$ 644.3	(4.5)%
Europe	298.5	285.6	4.5%
Consolidated net sales	\$ 913.6	\$ 929.9	(1.8)%
Net sales by channel:			
Business to business	\$ 512.7	\$ 480.5	6.7%
Consumer	400.9	449.4	(10.8)%
Consolidated net sales	\$ 913.6	\$ 929.9	(1.8)%
Consolidated gross margin	14.3%	14.0%	0.3%
Consolidated SG&A costs*	\$ 120.1	\$ 111.9	7.3%
Consolidated SG&A costs* as a % of net sales	13.1%	12.0%	1.1%
Operating income (loss) by segment:*			
Technology Products	\$ 8.8	\$ 17.7	(50.3)%
Industrial Products	8.3	6.9	20.3%
Corporate and other	(6.5)	(6.0)	8.3%
Consolidated operating income	\$ 10.6	\$ 18.6	(43.0)%
Operating margin by segment:*			
Technology Products	1.1%	2.1%	(1.0)%
Industrial Products	9.2%	9.7%	(0.5)%
Consolidated operating margin	1.2%	2.0%	(0.8)%
Effective income tax rate	32.6%	30.8%	1.8%
Net income	\$ 7.1	\$ 13.6	(47.8)%
Net margin	0.8%	1.5%	(0.7)%

\*includes special charges. See Note 4 of Notes to Condensed Consolidated Financial Statements.

NET SALES

SEGMENTS

The Technology Products net sales decrease is primarily attributable to weakness in the consumer channels, principally due to television shopping sales, as well as decreased internet and retail sales in North America. These declines were partially offset by growth in the business to business channels. Strong computer sales were offset by weak sales of computer accessories and software, consumer electronics, and computer components in North America. On a constant currency basis, Technology Products net sales would have decreased 3.2%.

The Industrial Products net sales increase is attributable to the addition of products offered and newer product categories on the Company's website and the addition of sales personnel.

## GEOGRAPHIES

The North American sales decrease was primarily the result of the challenging consumer business within the Technology Products segment, only partially offset by strong sales within the business to business operations. On a constant currency basis, North American sales would have decreased 4.4%. Movement in foreign exchange rates negatively impacted sales by approximately \$0.9 million.

European sales benefited from an increase in business to business activity driven by public sector sales but were negatively impacted by movement in foreign exchange rates of approximately \$7.7 million. On a constant currency basis, European sales would have increased 7.2%.

## CHANNELS

The increase in consolidated business to business channel sales was driven by the Industrial Products segment's additional product offered, newer product categories and the addition of sales personnel. On a constant currency basis, worldwide business to business channel sales grew 8.2%.

The decline in consolidated consumer-channel sales resulted from softness in television shopping, internet and retail stores, primarily in North America. On a constant currency basis, worldwide consumer channel sales decreased 10.4%.

## GROSS MARGIN

The increase in consolidated gross margin was due to changes in the segment and channel mix, with Industrial Products sales, which are typically higher margin than Technology Products, contributing a larger percentage of gross profit dollars in 2012. Modest improvements in our freight margin in Technology Products contributed to the improved margin from our ongoing freight and logistics initiatives. Gross margin is dependent on variables such as product mix, price protection and other sales incentives offered by the Company's vendors, competition, pricing strategy, co-operative advertising funds required to be classified as a reduction to cost of sales, freight discounting and other variables, any or all of which may result in fluctuations in gross margin.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The increase in selling, general and administrative expenses was primarily the result of increases in sales and other personnel headcount, reduced vendor co-operative advertising funding and increased facility and other operating costs. Significant expense increases include approximately \$2.3 million of increased internet advertising costs, \$1.2 million of increased salary and related expenses, \$0.9 million of reduced vendor co-operative advertising funding offset by reduced catalog and other advertising expenses, and \$0.5 million of increased rent and related expenses.

## SPECIAL CHARGES

The Company recorded legal and professional fees of approximately \$0.5 million related to a previously disclosed completed investigation and settlement with a former officer and director and \$1.1 million for senior staffing changes within the North America Technology Products segment. The Company also recorded \$0.3 million of reorganization costs in the first quarter of 2012 related to facility exit costs (See Note 4 of Notes to Condensed Consolidated Financial Statements). In the first quarter of 2011 the Company recorded \$0.5 million in charges related to the previously mentioned investigation.



## OPERATING MARGIN

The decline in Technology Products operating margin was primarily due to the challenging consumer business, offset by continued strength in the business to business operations, decline in vendor co-operative funding within the North America technology business, and lower sales and associated gross profit to cover fixed selling, general and administrative expenses.

The decrease in Industrial Products operating margin was due to incremental gross profits being invested in advertising expenses, and sales and other personnel costs as it continues to expand into newer product categories.

The increase in Corporate and other expenses primarily resulted from increased personnel costs in our overhead departments and increased tax and accounting fees offset by savings in other expenses.

Consolidated operating margin was impacted by special charges of \$1.9 million recorded during 2012.

## INTEREST EXPENSE

The interest expense decrease is attributable to decreasing balances owed on the Recovery Zone Bond facility and outstanding capital lease obligations. Interest expense for 2011 is primarily attributable to interest on the Recovery Zone bond facility used to finance the second Technology Products distribution center.

## INCOME TAXES

The increase in the effective tax rate is the result of higher projected taxable income in jurisdictions with higher tax rates in 2012 as compared to 2011.

## Financial Condition, Liquidity and Capital Resources

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

Selected liquidity data (in thousands):

	March 31, 2012	December 31, 2011	\$ Change
Cash	\$ 110,987	\$ 97,254	\$ 13,733
Accounts receivable, net	\$ 281,536	\$ 268,980	\$ 12,556
Inventories	\$ 387,222	\$ 372,244	\$ 14,978
Prepaid expenses and other current assets	\$ 20,711	\$ 18,198	\$ 2,513
Accounts payable	\$ 365,797	\$ 336,550	\$ 29,247
Accrued expenses and other current liabilities	\$ 72,574	\$ 72,410	\$ 164
Current portion of long term debt	\$ 2,588	\$ 2,552	\$ 36
Working capital	\$ 369,063	\$ 354,704	\$ 14,359

Our working capital increased primarily as the result of increased cash, accounts receivable and inventory balances, partially offset by increased accounts payable balances.

The increase in cash provided by operations during 2012 resulted from changes in our working capital accounts, which provided \$2.3 million in cash compared to \$9.2 million used in 2011, primarily the result of higher balances in accounts payable, accrued expenses and other current liabilities, partially offset by higher balances in accounts receivable and inventories as compared to the prior year. Cash generated from net income adjusted by other non-cash items provided \$12.5 million during 2012 compared to \$18.9 million provided by these items during 2011, primarily

as a result of higher net income in 2011. Our inventory turnover was 8.6 times on an annual basis compared to 8.0 times for the same period in 2011. Future inventory and accounts receivable balances will continue to fluctuate with the number of retail stores, changes in sales volume and the mix of our net sales between business and consumer customers.

Cash used in investing activities during 2012 totaled \$2.0 million and were for plastic molds, expenditures in a new retail store in Puerto Rico, upgrades and enhancements to our information and communications systems hardware and software, and expenditures related to the new distribution and call center. Net cash used in investing activities in 2011 totaled \$3.7 million and were for upgrades and enhancements to our information and communications systems hardware and software, expenditures in retail stores in North America and expenditures in our second distribution facility which opened in the third quarter of 2010.

Net cash provided by financing activities during 2012 was de minimus. We repaid approximately \$0.6 million of capital lease obligations and net proceeds and excess tax benefits from stock option exercises provided \$0.6 million.

In 2011, we borrowed \$25.5 million and repaid approximately \$10.9 million from revolving credit and short term debt facilities. In addition, we repaid \$0.7 million in capital lease obligations. Proceeds and excess tax benefits from stock option exercises provided approximately \$0.3 million of cash.

The Company maintains a \$125.0 million (which may be increased to \$200.0 million, subject to certain conditions) secured revolving credit agreement with a group of financial institutions which provides for borrowings in the United States and United Kingdom. The credit facility has a five year term and expires in October 2015. Availability is subject to a borrowing base formula that takes into account eligible receivables and eligible inventory. Borrowings are secured by substantially all of the Company's assets, including accounts receivable, inventory and certain other assets, subject to limited exceptions, including the exclusion of certain foreign assets from the collateral. The credit agreement contains certain operating, financial and other covenants, including limits on annual levels of capital expenditures, availability tests related to payments of dividends and stock repurchases and fixed charge coverage tests related to acquisitions. The revolving credit agreement requires that a minimum level of availability be maintained. If such availability is not maintained, the Company will be required to maintain a fixed charge coverage ratio (as defined). The borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and up to 40% of qualified inventories. The interest rate under this facility is computed at applicable market rates based on LIBOR or the Prime Rate, plus an applicable margin. The applicable margin varies based on borrowing base availability. As of March 31, 2012, eligible collateral under this agreement was \$119.5 million, total availability was \$110.4 million, total outstanding letters of credit were \$9.1 million and there were no outstanding advances. The Company was in compliance with all of the covenants under this facility as of March 31, 2012.

The Company's WStore subsidiary maintains a revolving credit agreement with a financial institution in France which is secured by WStore accounts receivable balances. Available amounts for borrowing under this facility includes all accounts receivable balances not over 60 days past due reduced by the greater of €4.0 million or 10% of the eligible accounts receivable. As of March 31, 2012, there was availability under this credit facility of approximately €19.2 million (\$25.6 million) and there were no outstanding borrowings. Under this agreement the Company is subject to certain non-financial covenants which it was in compliance with at March 31, 2012. This credit facility will be terminated on June 9, 2012.

The Company (through a subsidiary) has an outstanding Bond financing with the Development Authority of Jefferson, Georgia (the "Authority"). The Bonds were issued by the Authority and purchased by GE Government Finance Inc., and mature on October 1, 2018. The proceeds from Bond were used to finance capital equipment purchased for the Company's distribution facility located in Jefferson, Georgia. The purchase and installation of the equipment for the facility was completed by December 31, 2011. Pursuant to the transaction, the Company transferred to the Authority, for consideration consisting of the Bonds proceeds, ownership of the equipment and the Authority leased the equipment to the Company's subsidiary pursuant to a capital equipment lease expiring October 1, 2018. Under the capital equipment lease the Company has the right to acquire ownership of the equipment at any time for a purchase price sufficient to pay off all principal and interest on the Bonds, plus \$1.00. As of March 31, 2012 there was approximately \$7.2 million outstanding against this lease facility.

We also have certain obligations with various parties that include commitments to make future payments. Our principal commitments at March 31, 2012 consisted of payments under operating leases for certain of our real property and equipment, payments under capital leases for equipment, and payments under employment and other service agreements.

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

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

We anticipate cash needs to support our growth and expansion plans, continuing investment in upgrading and expanding our technological capabilities and information technology infrastructure and the opening of new retail stores. We anticipate cash needs to fund working capital requirements in our business, including the planned closing and relocation of one of our smaller distribution centers to a new, significantly larger distribution and call center for our Industrial Products segment, repaying outstanding debt, and funding special dividends declared by our Board of Directors and funding acquisitions. These expenses and capital expenditures will require significant levels of liquidity, which we believe can be adequately funded from our currently available cash and revolving credit resources. We have recently engaged in several opportunistic acquisitions, choosing to pay the purchase price in cash, and may do so in the future as favorable situations arise. However, a deep and prolonged period of reduced consumer spending could adversely impact our cash resources and force us to either forego future acquisition opportunities or to pay the purchase price in shares of our common stock, which could have a dilutive effect on our earnings per share.

We maintain our cash primarily in money market funds or their equivalent. As of March 31, 2012, all of our investments had maturities of less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

#### Off-balance Sheet Arrangements 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.

In April 2012, the Company entered into a lease for a distribution and call center for the Industrial Products segment. The facility, located in Robbinsville, New Jersey, is approximately 500,000 square feet and is leased through August 2032. The following table details the contractual obligations related to this lease (in thousands):

	2012	2013	Payments due by period		2016	After 2016
			2014	2015		
Distribution and call center operating lease:	\$-	\$1,219	\$1,659	\$1,701	\$1,743	\$33,762

There were no other material changes to the Company's contractual obligations from December 31, 2011.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

The translation of the financial statements of our operations outside of the United States is impacted by movements in foreign currency exchange rates. Changes in currency exchange rates as measured against the U.S. dollar may positively or negatively affect sales, gross margins, operating expenses and retained earnings 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 March 31, 2012 we had no outstanding option or forward exchange contracts.

Our exposure to market risk for changes in interest rates relates primarily to our variable rate debt. Our variable rate debt includes short-term borrowings under our credit facilities. As of March 31, 2012, there were no outstanding balances under our variable rate credit facility. A hypothetical change in average interest rates of one percentage point is not expected to have a material effect on our financial position, results of operations or cash flows.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2012. 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 March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The Company and its subsidiaries are involved in various lawsuits, claims, investigations and proceedings including commercial, employment, consumer, personal injury and health and safety law matters, which are being handled and defended in the ordinary course of business. In addition, the Company is subject to various assertions, claims, proceedings and requests for indemnification concerning intellectual property, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells. The Company is also audited by (or has initiated voluntary disclosure agreements with) numerous governmental agencies in various countries, including U.S. Federal and state authorities, concerning potential income tax, sales tax and unclaimed property liabilities. These matters are in various stages of investigation, negotiation and/or litigation, and are being vigorously defended. Although the Company does not expect, based on currently available information, that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial condition or results of operations, the ultimate outcome is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. The Company routinely assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable and estimable.



Item 6. Exhibits

- 10.1 Lease Agreement, dated April 16, 2010, between Jefferson Project I LLC as Landlord and SYX Distribution Inc. as Tenant (Jefferson, GA facility) (filed herewith)
- 10.2 First Amendment, dated August 24, 2010, to the Lease Agreement, dated April 2010, between Jefferson Project I LLC as Landlord and SYX Distribution Inc. as Tenant (Jefferson, GA facility) (filed herewith)
- 10.3 Lease Agreement, dated February 27, 2012 between PR I Washington Township NJ, LLC as Landlord and Global Equipment Company Inc. as Tenant (Robbinsville, NJ facility) (filed herewith)
- 10.4 Employment Agreement, dated April 12, 2012, between Systemax Inc. and Eric Lerner\* (filed herewith)
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.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

\*Management contract or compensatory plan or arrangement



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: May 8, 2012

By: /s/ Richard Leeds

Richard Leeds  
Chairman and Chief Executive Officer

By: /s/ Lawrence P. Reinhold

Lawrence P. Reinhold  
Executive Vice President and Chief Financial Officer

