

SYSTEMAX INC  
Form 10-Q  
May 08, 2008

***UNITED STATES***

***SECURITIES AND EXCHANGE COMMISSION***

## FORM 10-Q

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

**For the quarterly period ended March 31, 2008**

**or**

**o** **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)

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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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

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, 2008 was 36,628,782

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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 web site 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 web site ([www.sec.gov](http://www.sec.gov)). The information on our web site 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)) or can be obtained by writing to Systemax Inc., Attention: Board of Directors (Corporate Governance), 11 Harbor Park Drive, Port Washington, NY 11050.

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Systemax Inc.**

## Condensed Consolidated Balance Sheets

(In thousands)

	<b>March 31, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 98,731	\$ 128,021
Accounts receivable, net	215,654	206,940
Inventories, net	269,238	250,222
Prepaid expenses and other current assets	16,284	14,455
Deferred income tax assets, net	9,362	9,360
Total current assets	609,269	608,998
Property, plant and equipment, net	51,069	47,580
Deferred income tax assets, net	18,764	18,652
Goodwill, intangibles and other assets	30,911	1,150
Total assets	\$ 710,013	\$ 676,380
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
Current liabilities:		
Short-term borrowings, including current portions of long-term debt	\$ 2,110	\$ 4,302
Accounts payable	262,952	248,673
Accrued expenses and other current liabilities	80,278	81,670
Dividends payable	37,126	
Total current liabilities	382,466	334,645
Long-term debt	347	254
Other liabilities	5,624	5,646
Total liabilities	388,437	340,545
Commitments and contingencies		
Shareholders' equity:		
Preferred stock		
Common stock	387	383
Additional paid-in capital	176,248	173,381
Treasury stock	(26,147)	(26,324)
Retained earnings	157,619	176,684
Accumulated other comprehensive income	13,469	11,711
Total shareholders' equity	321,576	335,835
Total liabilities and shareholders' equity	\$ 710,013	\$ 676,380

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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,	
	2008	2007
Net sales	\$ 724,737	\$ 676,122
Cost of sales	610,057	579,448
Gross profit	114,680	96,674
Selling, general & administrative expenses	87,147	75,137
Operating income	27,533	21,537
Interest and other income, net	(728)	(742)
Income before income taxes	28,261	22,279
Provision for income taxes	10,200	8,384
Net income	\$ 18,061	\$ 13,895
Net income per common share:		
Basic	\$ .50	\$ .39
Diluted	\$ .48	\$ .37
Weighted average shares outstanding:		
Basic	36,206	35,718
Diluted	37,628	37,701
Dividends declared per common share	\$ 1.00	\$ 1.00

See notes to condensed consolidated financial statements.

**Systemax Inc.**

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 18,061	\$ 13,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,282	2,132
Provision (benefit) for deferred income taxes	(252)	715
Provision (reduction) for returns and doubtful accounts	(894)	1,222
Compensation expense related to equity compensation plans	863	832
(Gain) loss on dispositions and abandonment	13	(3)
Changes in operating assets and liabilities:		
Accounts receivable	(2,664)	(18,064)
Inventories	(17,813)	(13,784)
Prepaid expenses and other current assets	(338)	7,896
Accounts payable, accrued expenses and other current liabilities	9,895	23,859
Net cash provided by operating activities	9,153	18,700
<b>Cash flows from investing activities:</b>		
Purchase of CompUSA	(30,400)	
Purchases of property, plant and equipment	(6,059)	(1,238)
Proceeds from disposals of property, plant and equipment	43	
Net cash used in investing activities	(36,416)	(1,238)
<b>Cash flows from financing activities:</b>		
Repayments of borrowings from banks	(2,344)	(742)
Proceeds from (repayments of) long-term debt and capital lease obligations, net	80	(138)
Proceeds from issuance of common stock, net of repurchases	887	878
Excess tax benefit from exercises of stock options	1,182	1,579
Net cash provided by (used in) financing activities	(195)	1,577
Effects of exchange rates on cash	(1,832)	(57)
Net increase (decrease) in cash and cash equivalents	(29,290)	18,982
Cash and cash equivalents beginning of period	128,021	86,964
Cash and cash equivalents end of period	\$ 98,731	\$ 105,946
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Acquisitions of equipment through capital leases	\$ 255	\$

See notes to condensed consolidated financial statements.

**Systemax Inc.**

## Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(In thousands)

	Common Stock						Accumulated Other Comprehensive Income, Net of Tax	Comprehensive Income
	Number of Shares Outstanding	Amount	Additional Paid-in Capital	Treasury Stock, At Cost	Retained Earnings			
Balances, January 1, 2008	36,092	\$ 383	\$ 173,381	\$ (26,324)	\$ 176,684	\$	11,711	
Stock-based compensation expense			863					
Exercise of stock options	437	4	706	177				
Income tax benefit on stock-based compensation			1,298					
Change in cumulative translation adjustment, net							1,758	1,758
Dividends declared						(37,126)		
Net income						18,061		18,061
Total comprehensive income								\$ 19,819
Balances, March 31, 2008	36,529	\$ 387	\$ 176,248	\$ (26,147)	\$ 157,619	\$	13,469	

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, 2008 and the results of operations for the three month periods ended March 31, 2008 and 2007, cash flows for the three month periods ended March 31, 2008 and 2007 and changes in shareholders' equity for the three month period ended March 31, 2008. The December 31, 2007 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 year ended December 31, 2007.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2007 and for the year then ended included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. The results for the three months ended March 31, 2008 are not necessarily indicative of the results for an 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 quarter ended on March 29, 2008. The first quarters of both 2008 and 2007 included 13 weeks.

**2. Acquisition of CompUSA**

On January 5, 2008, the Company, through various subsidiaries, entered into an asset purchase agreement with CompUSA Inc., a Delaware corporation. Pursuant to the Purchase Agreement, the Company acquired certain assets and liabilities related to the e-commerce business of CompUSA Inc., certain intellectual property rights owned by CompUSA, and the E-Commerce Business for \$18.9 million in cash. The Company completed its acquisition of the E-Commerce Business on January 10, 2008. Pursuant to the Purchase Agreement, the Company also acquired sixteen retail leases from CompUSA Inc. and certain fixtures located at these locations. The closing of the acquisition of each lease was subject to the receipt of the consent of the landlord, if required, under the terms of a lease. During February and March 2008 the Company completed the acquisition of these sixteen store leases and fixtures for an aggregate purchase price of approximately \$11.5 million. This acquisition accelerates the Company's planned expansion into the retail market place and gives the Company 28 retail storefronts operating in North America and Puerto Rico.

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A preliminary purchase price allocation has been completed and the Company has recorded assets of approximately \$17.0 million for Trademarks and Trade Names, \$8.0 million for Domain Names, \$.4 million for Client Lists, \$.9 million for fixed assets and \$4.1 million for Goodwill. The Company expects to amortize its Client Lists over a 5 year period and depreciate its fixed assets over a similar period. All other assets are indefinite lived.

The Company was assigned the rights and prospective obligations of the tenant for each of the 16 retail stores acquired. The following table details the contractual obligations related to the assigned leases (*in thousands*):

		<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>2011</b>		<b>2012</b>		<b>After 2012</b>
Retail store operating leases	\$	4,115	\$	4,633	\$	4,311	\$	3,671	\$	3,373	\$	13,849

### 3. Stock-based Compensation Plans

Pre-tax stock-based employee stock option compensation expense for the three months ended March 31, 2008 and 2007 was \$720,000 and \$689,000 respectively.

The Company continues to use the simplified method for determining expected life as permitted in SEC Staff Accounting Bulletin 110 for options qualifying for treatment ( plain-vanilla options) due to the limited history the Company currently has with option exercise activity.

### 4. 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. 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. The dilutive effect of outstanding options 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 excluded from the computation of diluted earnings per share was 649,000 and zero shares for the three months ended March 31, 2008 and 2007, respectively, due to their antidilutive effect.

### 5. Comprehensive Income

Comprehensive income consists of net income and foreign currency translation adjustments, net of tax, and is included in the Condensed Consolidated Statement of Shareholders' Equity. For the three month periods ended March 31, 2008 and 2007, comprehensive income was \$19,819,000 and \$14,388,000, respectively.

### 6. Credit Facilities

The Company maintains a \$120 million (which may be increased by up to \$30 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 borrowings are secured by all of the Company's domestic and United Kingdom accounts receivable, the domestic inventories of the Company, general intangibles and the Company's shares of stock in its domestic subsidiaries and the Company's United Kingdom headquarters building. The credit facility expires and the outstanding borrowings thereunder are due on October 26, 2010. The revolving credit agreement contains certain financial and other covenants, including maintaining a minimum level of availability and restrictions on capital expenditures and payments of dividends. The Company was in compliance with all of the covenants as of March 31, 2008. As of March 31, 2008, eligible collateral under the agreement was \$118.7 million, total availability was \$107.7 million and there were outstanding letters of credit of \$11.0 million and there were no outstanding advances.

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The Company's Netherlands subsidiary maintains a 5.0 million (\$7.9 million at the March 31, 2008 exchange rate) credit facility with a local financial institution. At March 31, 2008 there were 1.1 million (\$1.7 million) of borrowings outstanding with interest payable at a rate of 7.05%. Borrowings under the facility are secured by the subsidiary's accounts receivable and are subject to a borrowing base limitation of 85% of the eligible accounts. The facility expires in September 2008.

### **7. Product Warranties**

Provisions for estimated future expenses relating to product warranties for the Company's assembled PCs are recorded as cost of sales when revenue is recognized. Liability estimates are determined based on management judgment considering such factors as the number of units sold, historical and anticipated rates of warranty claims and the likely current cost of corrective action. The changes in accrue product warranties were as follows:

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	Three months ended March 31, 2008
Balance, beginning of year	\$ 914
Charged to expense	279
Deductions	(341)
Balance, end of period	\$852

**8. Segment Information**

Systemax is primarily a direct marketer of brand name and private label products. Our operations are organized in three reportable business segments Technology Products, Industrial Products and Hosted Software. Our Technology Products segment sells computers, computer supplies and consumer electronics which are marketed in North America and Western Europe. Most of these products are manufactured by other companies. We assemble our own personal computers ( PCs ) and sell them under the trademarks *Systemax* and *Ultra* . We also sell certain computer-related products manufactured for us to our own design under the trademark *Ultra* . Technology Products accounted for 92% of our net sales in 2007. Our Industrial Products segment sells a wide array of material handling equipment, storage equipment and consumable industrial items 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 under the trademarks *Global* , *GlobalIndustrial.com* and *Nexel* . Industrial products accounted for 8% of our net sales in 2007. In both of these segments we offer our customers a broad selection of products, prompt order fulfillment and extensive customer service. Our Hosted Software segment, which became a reportable segment in 2006, participates in the emerging market for on-demand, web-based business software applications through the marketing of our PCS ProfitCenter Software application.

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, restructuring and other charges and income taxes. Corporate costs not identified with the disclosed segments and restructuring and other charges are grouped as Corporate and other expenses. The chief operating decision-maker reviews assets and makes 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.

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

	Three Months Ended March 31,	
	2008	2007
Net sales:		
Technology products	\$ 667,297	\$ 624,167
Industrial products	57,362	51,874
Hosted software	78	81
Consolidated	\$ 724,737	\$ 676,122
Operating income:		
Technology products	\$ 30,323	\$ 21,249
Industrial products	5,501	4,591
Hosted Software	(4,122)	(3,017)
Corporate and other expenses	(4,169)	(1,286)
Consolidated	\$ 27,533	\$ 21,537





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

	Three Months Ended March 31,	
	2008	2007
Net sales:		
United States:		
Industrial products	\$ 57,362	\$ 51,874
Technology products	365,917	351,220
Hosted software	78	81
United States total	423,357	403,175
Other North America	48,999	37,214
North America total	472,356	440,389
Europe	252,381	235,733
Consolidated	\$ 724,737	\$ 676,122

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

### 9. Contingencies

**Litigation** Kevin Vukson v. TigerDirect, Inc., OnRebate.com Inc. and Systemax Inc.

On October 18, 2007, Kevin Vukson filed a class action complaint in U.S. District Court (E.D.N.Y.) against TigerDirect, Inc., OnRebate.com Inc. and Systemax Inc. on behalf of himself and all OnRebate customers whose rebates were denied or delayed. (OnRebate.com Inc. is a rebate processing company owned by Systemax.) Vukson's Complaint alleges that since 2004 Systemax, TigerDirect and OnRebate have conducted a deceptive and unlawful enterprise by failing to pay rebates that should have been paid and delaying unnecessarily the payment of other rebates that were paid. Vukson alleges claims arising under Florida's Unfair, Deceptive Trade Practice Act, the federal RICO statute, along with claims for breach of contract, conspiracy to commit fraud and unjust enrichment. Systemax, TigerDirect and OnRebate have moved to dismiss the Complaint and to transfer the matter to the Southern District of Florida. The Court has not yet ruled on these motions and has not yet certified a class. The Company intends to vigorously defend this case. State of Florida, Office of the Attorney General Subpoena

On January 2, 2008 the Company received a subpoena for documents from the Florida Attorney General's Office relating to the payment and processing of rebates by the Company. On January 30, 2008 the Company received a second subpoena for additional documents. The Company is cooperating with the Florida Attorney General's Office to provide the requested documents.

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

#### Forward Looking Statements

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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.

### **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 2007 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, long-lived assets, income taxes and accruals. 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, 2007. There have been no significant changes in the application of critical accounting policies or estimates during 2008. 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 its financial condition or results of operations.

### **Overview**

Systemax is primarily a direct marketer of brand name and private label products. Our operations are organized in three reportable business segments Technology Products, Industrial Products and Hosted Software. Our Technology Products segment sells computers, computer supplies and consumer electronics which are marketed in North America and Western Europe. Most of these products are manufactured by other companies. We assemble our own PCs and sell them under our own trademarks Systemax and Ultra. We also sell certain computer-related products manufactured for us to our own design under the trademark Ultra. Technology products accounted for 92% of our net sales in the first quarter of 2008. Our Industrial Products segment sells a wide array of material handling equipment, storage equipment and consumable industrial items 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 under the trademarks Global, GlobalIndustrial.com and Nexel. Industrial products accounted for 8% of our net sales in the first quarter of 2008. In both of these product groups, we offer our customers a broad selection of products, prompt order fulfillment and extensive customer service. Our Hosted Software segment, which became a reportable segment in 2006, participates in the emerging market for on-demand, web-based business software applications through the marketing of our PCS ProfitCenter Software application. See Note 8 to the consolidated financial statements additional financial information about our business

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segments as well as information about our geographic operations.

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 of information technology and our industrial products is working capital intensive, requiring us to incur significant costs associated with the warehousing of many products, including the costs of leasing warehouse space, maintaining inventory and inventory management systems, and employing personnel to perform the associated tasks. We

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supplement our on-hand product availability by maintaining relationships with major distributors and manufacturers, utilizing a combination of stocking and drop-shipment fulfillment.

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.

### Results of Operations

#### Three Months Ended March 31, 2008 compared to the Three Months Ended March 31, 2007

Key Performance Indicators (in thousands):

	2008	Three Months Ended March 31, 2007	% Change
<i>Net sales by segment:</i>			
Technology products	\$ 667,297	\$ 624,167	6.9%
Industrial products	57,362	51,874	10.6%
Hosted software	78	81	(3.7)%
Total net sales	\$ 724,737	\$ 676,122	7.2%
<i>Net sales by geography:</i>			
North America	\$ 472,356	\$ 440,389	7.3%
Europe	252,381	235,733	7.1%
Total net sales	\$ 724,737	\$ 676,122	7.2%
Gross margin	15.8%	14.3%	1.5%
Selling, general and administrative expenses	\$ 87,147	\$ 75,137	16.0%
<i>Selling, general and administrative costs as a % of net sales</i>	12.0%	11.1%	.9%
Operating income	\$ 27,533	\$ 21,537	27.8%
Operating margin	3.8%	3.2%	.6%
Effective income tax rate	36.1%	37.6%	(1.5)%
Net income	\$ 18,061	\$ 13,895	30.0%
Net margin	2.5%	2.2%	.3%

The Technology Products sales increase was driven by increased internet and retail store sales, private label product sales, expanded product offerings and the acquisition of the CompUSA ecommerce business and sixteen retail stores. Sales attributable to CompUSA were \$18.3 million. The Industrial Products sales increase resulted from the Company increasing its market share through competitive pricing advantages and increased internet sales. Both North America sales and Europe sales increased in the first quarter as compared to the same periods in the prior year. Movements in foreign exchange rates positively impacted the European sales comparison by approximately \$18 million in the first quarter. Excluding the movements in foreign exchange rates, European sales would have decreased .4% from the prior year. The increase in our North American sales resulted from sales growth in both our Technology Products and Industrial Products groups. This increase was primarily a result of our continuing internet initiatives, increased retail sales, expansion of our product offerings and the aforementioned acquisition of certain CompUSA assets. Consolidated gross margin improved by over 150 basis points in the first quarter as compared to the same period in

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2007 due to decreased competitive pricing pressures in 2008 as compared to the previous year. Gross margin is dependent on variables such as product mix, vendor price protection and other sales incentives, competition, pricing strategy, cooperative advertising funds required to be classified as a reduction to cost of sales and other variables, any or all of which may result in fluctuations in gross margin.

The increase in selling, general and administrative expenses during 2008 was primarily the result of \$9.5 million of increased salaries, \$1.5 million increased rent costs and \$1.5 million of professional fees and telephone communication charges. Included in these cost increases are approximately \$2.5 million of costs related to CompUSA operations and \$.7 million in one time severance costs. Included in the first quarter of 2007 is a gain of approximately \$2.4 million from a lawsuit that was settled favorably. Excluding this gain and the one time severance costs in 2008, selling, general and administrative expenses would have increased 11.5% in 2008 as compared to 2007.

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The Company's effective tax rate for the first quarter of 2008 was 36.1% compared to 37.6% in 2007. The reduced rate in 2008 is primarily the result of a reversal of a tax liability of approximately \$.4 million related to favorable settlement of an outstanding tax issue.

### Financial Condition, Liquidity and Capital Resources

Our primary liquidity needs are to support working capital requirements in our business, to fund capital expenditures, and to fund special dividends declared by our Board of Directors and to fund acquisitions. We rely principally upon operating cash flow and borrowings under our credit facilities to meet these needs. We believe that cash flow available from these sources will be sufficient to meet our working capital requirements as well as any interest and debt repayments in the next twelve months and thereafter.

Selected liquidity data (in thousands):

	March 31, 2008	December 31, 2007	\$ Change
Cash and cash equivalents	\$ 98,731	\$ 128,021	\$ (29,290)
Accounts receivable, net	\$ 215,654	\$ 206,940	\$ 8,714
Inventories ,net	\$ 269,238	\$ 250,222	\$ 19,016
Prepaid expenses and other current assets	\$ 16,284	\$ 14,455	\$ 1,829
Accounts payable	\$ 262,952	\$ 248,673	\$ 14,279
Accrued expenses and other current liabilities	\$ 80,278	\$ 81,670	\$ (1,392)
Dividends payable	\$ 37,126	\$	\$ 37,126
Short term borrowings	\$ 2,110	\$ 4,302	\$ (2,192)
Working capital	\$ 226,803	\$ 273,453	\$ (46,650)

Our working capital decreased in the first quarter of 2008 as the result of the use of cash of approximately \$30.4 million for the purchase of certain CompUSA assets, an increase in inventory, primarily related to purchasing inventory for the 16 CompUSA retail stores, an increase in accounts payable and accrued expenses and an increase in dividends payable as the result of the dividend declared by our Board in March 2008. Our inventory turnover decreased from 10 times to 9.5 times on an annual basis primarily the result of the restocking of the 16 acquired CompUSA retail stores. Future accounts receivable and inventory balances will continue to fluctuate with changes in sales volume and the mix of our net sales between consumer and business customers. These accounts will also be affected by the acquisition of CompUSA.

The decrease in cash provided by operations in 2008 resulted from changes in our working capital accounts, which used \$10.9 million in cash compared to \$.1 million of cash used in 2007, primarily the result of an increase in inventories related to the CompUSA acquisition. Cash generated from net income adjusted by other non-cash items provided \$20.1 million for the first quarter of 2008 compared to \$18.8 million provided by these items in the first quarter of 2007.

Cash flows used in investing activities during 2008 were primarily for the CompUSA acquisition and for capital expenditures in retail stores and information technology. Cash flows used in investing activities during 2007 consisted primarily of upgrades and enhancements to our information and communications systems hardware and facilities costs.



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In the first quarter of 2008 we repaid \$2.3 million in short-term loans in Europe and we had proceeds and excess tax benefits from stock option exercises that provided approximately \$2.1 million of cash. In the first quarter of 2007 we had proceeds and excess tax benefits from stock option exercises of approximately \$2.5 million. We used cash of \$.9 million to repay long-term debt obligations, primarily in Europe.

Under our \$120 million (which may be increased by up to \$30 million, subject to certain conditions) secured revolving credit agreement for borrowings in the United States and United Kingdom, as of March 31, 2008, eligible collateral was \$118.7 million and total availability was \$107.7 million. There were outstanding letters of credit of \$11.0 million and there were no outstanding advances as of March 31, 2008. The borrowings are secured by all of the domestic and United Kingdom accounts receivable, the domestic inventories of the Company, general intangibles, the Company's shares of stock in its domestic subsidiaries and the Company's United Kingdom headquarters building. The credit facility expires and the outstanding borrowings thereunder are due on October 26, 2010. The revolving credit agreement contains certain financial and other covenants, including maintaining a minimum level of availability and restrictions on capital expenditures and payments of dividends. We were in compliance with all of the covenants under this facility as of March 31, 2008.

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Under our Netherlands 5 million (\$7.9 million at the March 31, 2008 exchange rate) credit facility, at March 31, 2008 there was approximately 1.1 million outstanding under this line (\$1.7 million). This facility expires in September 2008.

We also have certain obligations with various parties that include commitments to make future payments. Our principal commitments at March 31, 2008 consisted of repayments of borrowings under our credit agreements, payments under operating leases for certain of our real property and equipment and payments under employment and other service agreements.

Our current and anticipated needs for cash include funding growth in working capital, the special dividend declared by our Board of Directors in 2008, capital expenditures necessary for future growth in sales and potential expansion through acquisitions. We believe that our cash balances 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 primarily in money market funds or their equivalent. As of March 31, 2008, all of our investments had maturities of less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

### **Off-balance Sheet Arrangements**

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

### **Item 3. Quantitative and Qualitative Disclosure 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, 2008 we had no outstanding 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 in Europe under our credit facilities. As of March 31, 2008, the balance outstanding on our variable rate debt was approximately \$1.7 million. Based on our market sensitive instruments as of March 31, 2008, 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 for the fiscal year.

**Item 4. 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, 2008. As part of this evaluation we identified a significant deficiency, as defined under Auditing Standard No. 5: An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements, in our internal controls over financial reporting as of March 31, 2008. This significant deficiency is:

The Company consolidates its worldwide financial results from disparate underlying financial and operational systems that have various functional limitations and few automated interfaces. This results in a consolidation process that is heavily reliant on manual review procedures and manual adjustments. Our control over this consolidation process primarily consists of corporate review procedures. The design and operation of this control process may not prevent or detect misstatements on a timely basis. This significant deficiency does not, in our judgment, rise to the level of a material weakness in internal controls over financial reporting because we believe that the controls in place would prevent or detect a material misstatement. 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.

### **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, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No.157 Fair Value Measurements . This statement was issued to increase consistency and comparability in fair value measurements and for expanded disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 ( FSP 157-2 ) which amends SFAS 157 to delay the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 delays the effective date of SFAS 157, for certain items, until fiscal years beginning after November 15, 2008.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (including an amendment of FASB Statement No. 115) . This interpretation was issued to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

Effective January 1, 2008, the Company adopted SFAS 157 and SFAS 159. Since we do not have any financial assets and liabilities that are required to be recorded at fair value, the only impact of these adoptions will be on the disclosures required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments in our Annual Report on Form 10-K for the year ended December 31, 2008.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, which replaces FASB Statement 141. SFAS No.141R retains the requirement that the acquisition method of accounting be used for business combinations. The objective of SFAS No. 141R is to improve the relevance, representational faithfulness and comparability that reporting entities provide in their financial reports about business combinations and their effects. SFAS 141R establishes principles and requirements for how an acquirer 1) recognizes and measures identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, 2) recognizes and measures the goodwill acquired in the combination or a gain from a bargain purchase and 3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of this pronouncement.

In December 2007, the FASB issued SFAS No. 160, Accounting and Reporting of Noncontrolling Interest ( SFAS No. 160 ). The objective of SFAS 160 is to improve the relevance, comparability and transparency of the financial information that reporting entities provide related to noncontrolling interests, sometimes referred to as minority interests. SFAS No. 160 requires, among other things, that noncontrolling interests be

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shown separately in the consolidated entity's equity section of the balance sheet. SFAS No. 160 also establishes accounting and reporting standards for ownership interest in subsidiaries held by parties other than the parent, for presentation of amounts of consolidated net income attributable to the parent and the noncontrolling interest, for consistency in accounting for changes in a parent's ownership interest when the parent retains a controlling interest, for the valuation of retained noncontrolling equity interests when a subsidiary is deconsolidated and for providing sufficient disclosure that identifies and distinguishes the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective beginning January 1, 2009. The Company is currently evaluating the potential impact, if any, of this pronouncement.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

Systemax is a party to various pending legal proceedings and disputes arising in the normal course of business, including those involving commercial, employment, tax and intellectual property related claims, none of which, in management's opinion, is anticipated to have a material adverse effect on our consolidated financial statements.

**Item 6. Exhibits**

31 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**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 9, 2008

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