

# SYSTEMAX INC

## FORM 10-Q (Quarterly Report)

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Address	11 HARBOR PARK DR PORT WASHINGTON, NY, 11050
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Sector	Industrials
Fiscal Year	12/31

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

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended **September 30, 2019**

**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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (\$.01 par value)	SYX	New York Stock Exchange

The number of shares outstanding of the registrant's Common Stock as of October 30, 2019 was 37,531,176.

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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 (Unaudited)

(In millions)

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
ASSETS:		
Current assets:		
Cash	\$ 97.6	\$ 295.4
Accounts receivable, net	96.1	84.1
Inventories	102.3	107.3
Prepaid expenses and other current assets	6.7	10.6
Total current assets	<u>302.7</u>	<u>497.4</u>
Property, plant and equipment, net	18.3	14.9
Operating lease right-of-use assets	60.8	0.0
Deferred income taxes	9.4	8.9
Goodwill and intangibles	7.3	7.7
Other assets	1.1	1.1
Total assets	<u>\$ 399.6</u>	<u>\$ 530.0</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 119.9	\$ 101.1
Dividend payable	0.0	243.5
Accrued expenses and other current liabilities	40.1	35.0
Operating lease liabilities	11.2	0.0
Total current liabilities	<u>171.2</u>	<u>379.6</u>
Deferred income tax liability	0.1	0.1
Other liabilities	2.5	12.6
Operating lease liabilities	59.9	0.0
Total liabilities	<u>233.7</u>	<u>392.3</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	0.0	0.0
Common stock	0.4	0.4
Additional paid-in capital	189.5	187.0
Treasury stock	(22.9)	(25.1)
Retained earnings	(4.2)	(27.6)
Accumulated other comprehensive income	3.1	3.0
Total shareholders' equity	<u>165.9</u>	<u>137.7</u>
Total liabilities and shareholders' equity	<u>\$ 399.6</u>	<u>\$ 530.0</u>

See Notes to Condensed Consolidated Financial Statements.

**Systemax Inc.**

## Condensed Consolidated Statements of Operations (Unaudited)

(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 243.9	\$ 235.8	\$ 724.7	\$ 679.2
Cost of sales	159.5	153.6	474.0	444.5
Gross profit	84.4	82.2	250.7	234.7
Selling, distribution & administrative expenses	66.7	62.9	199.8	186.0
Special charges, net	(0.8)	0.9	(0.8)	0.9
Operating income from continuing operations	18.5	18.4	51.7	47.8
Interest and other (income) expense, net	0.1	(0.3)	0.0	(0.2)
Income from continuing operations before income taxes	18.4	18.7	51.7	48.0
Provision for income taxes	4.7	3.6	13.1	10.8
Net income from continuing operations	13.7	15.1	38.6	37.2
Net income (loss) from discontinued operations	(1.0)	163.7	(1.6)	174.4
Net income	\$ 12.7	\$ 178.8	\$ 37.0	\$ 211.6
Net income per common share from continuing operations:				
Basic	\$ 0.36	\$ 0.41	\$ 1.03	\$ 1.00
Diluted	\$ 0.36	\$ 0.40	\$ 1.02	\$ 0.98
Net income (loss) per common share from discontinued operations:				
Basic	\$ (0.03)	\$ 4.40	\$ (0.04)	\$ 4.69
Diluted	\$ (0.03)	\$ 4.32	\$ (0.04)	\$ 4.59
Net income per common share:				
Basic	\$ 0.33	\$ 4.81	\$ 0.99	\$ 5.69
Diluted	\$ 0.33	\$ 4.72	\$ 0.98	\$ 5.57
Weighted average common and common equivalent shares:				
Basic	37.5	37.2	37.4	37.2
Diluted	38.0	37.9	37.9	38.0
Dividends declared	\$ 0.12	\$ 0.11	\$ 0.36	\$ 1.33

See Notes to Condensed Consolidated Financial Statements.

**Systemax Inc.**

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 12.7	\$ 178.8	\$ 37.0	\$ 211.6
Other comprehensive income (loss):				
Foreign currency translation	0.0	(0.5)	0.1	(2.8)
Total comprehensive income	\$ 12.7	\$ 178.3	\$ 37.1	\$ 208.8

See Notes to Condensed Consolidated Financial Statements.

**Systemax Inc.**

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Income from continuing operations	\$ 38.6	\$ 37.2
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	3.0	3.3
Other non-cash benefit	(0.8)	0.0
Provision for returns and doubtful accounts	0.4	0.2
Compensation expense related to equity compensation plans	4.0	0.5
(Benefit) provision for deferred taxes	(0.5)	0.6
Loss on disposition and abandonment	0.1	0.0
Changes in operating assets and liabilities:		
Accounts receivable	(13.0)	(15.8)
Inventories	5.1	(3.2)
Prepaid expenses and other current assets	(3.0)	(3.1)
Income taxes payable	7.2	4.5
Accounts payable	18.7	(2.7)
Accrued expenses, other current liabilities and other liabilities	5.1	(6.3)
Net cash provided by operating activities from continuing operations	64.9	15.2
Net cash used in operating activities from discontinued operations	0.0	(35.1)
Net cash provided by (used in) operating activities	64.9	(19.9)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6.2)	(2.9)
Net cash used in investing activities from continuing operations	(6.2)	(2.9)
Net cash provided by investing activities from discontinued operations	0.0	249.6
Net cash provided by (used in) investing activities	(6.2)	246.7
Cash flows from financing activities:		
Dividends paid	(257.1)	(105.2)
Proceeds from issuance of common stock	0.8	4.2
Payment of payroll taxes on stock-based compensation through shares withheld	(0.9)	(1.4)
Proceeds from the issuance of common stock from employee stock purchase plan	0.8	0.0
Repurchase of treasury shares	0.0	(9.1)
Net cash used in financing activities	(256.4)	(111.5)
Effects of exchange rates on cash	(0.1)	3.0
Net (decrease) increase in cash	(197.8)	118.3
Cash – beginning of period	295.4	184.5
Cash – end of period	\$ 97.6	\$ 302.8
Supplemental disclosures of non-cash operating and investing activities:		
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 15.4	\$ 0.0

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
	Number of Shares Outstanding	Amount					
Balances, January 1, 2019	37,335	\$ 0.4	\$ 187.0	\$ (25.1)	\$ (27.6)	\$ 3.0	\$ 137.7
Stock-based compensation expense			1.5				1.5
Issuance of restricted stock	103		(1.8)	1.8			0.0
Stock withheld for employee taxes	(34)			(0.8)			(0.8)
Proceeds from issuance of common stock	3						0.0
Issuance of shares under employee stock purchase plan	21		0.4				0.4
Dividends declared					(4.5)		(4.5)
Change in cumulative translation adjustment						0.0	0.0
Net income					9.7		9.7
Balances, March 31, 2019	37,428	\$ 0.4	\$ 187.1	\$ (24.1)	\$ (22.4)	\$ 3.0	\$ 144.0
Stock-based compensation expense			1.3				1.3
Issuance of restricted stock	6						0.0
Stock withheld for employee taxes	(1)						0.0
Proceeds from issuance of common stock	53		(0.3)	0.9			0.6
Dividends declared					(4.5)		(4.5)
Change in cumulative translation adjustment						0.1	0.1
Net income					14.6		14.6
Balances, June 30, 2019	37,486	\$ 0.4	\$ 188.1	\$ (23.2)	\$ (12.3)	\$ 3.1	\$ 156.1
Stock-based compensation expense			1.2				1.2
Stock withheld for employee taxes	(4)			(0.1)			(0.1)
Proceeds from issuance of common stock	21		(0.2)	0.4			0.2
Issuance of shares under employee stock purchase plan	23		0.4				0.4
Dividends declared					(4.6)		(4.6)
Change in cumulative translation adjustment						0.0	0.0
Net income					12.7		12.7
Balances, September 30, 2019	37,526	\$ 0.4	\$ 189.5	\$ (22.9)	\$ (4.2)	\$ 3.1	\$ 165.9

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
	Number of Shares Outstanding	Amount					
Balances, January 1, 2018	37,094	\$ 0.4	\$ 186.5	\$ (21.8)	\$ 44.8	\$ 1.9	\$ 211.8
Stock-based compensation expense			0.4				0.4
Issuance of restricted stock	38		(0.5)	0.5			0.0
Stock withheld for employee taxes	(31)		(0.5)	(0.4)			(0.9)
Proceeds from issuance of common stock	72		(0.1)	0.9			0.8
Dividends declared					(4.1)		(4.1)
Change in cumulative translation adjustment						1.4	1.4
Net income					14.6		14.6
Balances March 31, 2018	37,173	\$ 0.4	\$ 185.8	\$ (20.8)	\$ 55.3	\$ 3.3	\$ 224.0
Stock-based compensation expense			0.4				0.4
Issuance of restricted stock	19		(0.2)	0.2			0.0
Stock withheld for employee taxes	(10)		(0.3)	(0.1)			(0.4)
Proceeds from issuance of common stock	10			0.1			0.1
Dividends declared					(41.3)		(41.3)
Change in cumulative translation adjustment						(3.7)	(3.7)
Net income					18.2		18.2
Balances, June 30, 2018	37,192	\$ 0.4	\$ 185.7	\$ (20.6)	\$ 32.2	\$ (0.4)	\$ 197.3
Stock-based compensation expense			1.6				1.6
Issuance of restricted stock	50		(0.6)	0.6			0.0
Stock withheld for employee taxes	(4)			(0.1)			(0.1)
Proceeds from issuance of common stock	255		(0.2)	3.5			3.3
Dividends declared					(4.1)		(4.1)
Repurchase of treasury shares	(233)			(9.1)			(9.1)
Discontinued France operations cumulative translation adjustment						4.1	4.1
Change in cumulative translation adjustment						(0.5)	(0.5)
Net income					178.8		178.8
Balances, September 30, 2018	37,260	\$ 0.4	\$ 186.5	\$ (25.7)	\$ 206.9	\$ 3.2	\$ 371.3

See Notes to Condensed Consolidated Financial Statements.

Systemax Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

**1. Basis of Presentation**

The accompanying condensed consolidated financial statements of Systemax Inc., with its subsidiaries, (the "Company") are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America are not required in these interim financial statements and have been condensed or omitted. All significant intercompany accounts and transactions have been eliminated in consolidation.

As previously disclosed in August 2018, the Company sold its France-based IT business. With the completion of the sale, Systemax operates and is internally managed in one reportable business segment, its Industrial Products Group ("IPG"), which includes its former Corporate and other segment. IPG sells a wide array of industrial and general business hard goods and supplies and to a lesser extent products that would fall into the generally recognizable category of maintenance, repair and operations ("MRO") products, markets the Company has served since 1949.

The sale of the France based IT business, which had been included in the Company's former European Technology Products segment, met the "strategic shift with major impact" criteria as defined under Accounting Standards Update ("ASU") 2014-08, "*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*". Therefore, the prior year results of the France-based IT business are included in discontinued operations in the accompanying condensed consolidated financial statements. The Company recorded a pre-tax book gain on the sale of the business of approximately \$178.2 million. The pre-tax book gain included proceeds from the sale of approximately \$267.3 million offset by the \$82.5 million of net assets sold, \$1.5 million for accelerated amortization expense of restricted stock units and stock options and by \$5.1 million of deal transaction costs related to the sale. For the three and nine month periods ended September 30, 2019, there were no net sales or net income (loss) of the France business included in discontinued operations. In the third quarter and for the nine months ended September 30, 2018, net sales of the France business included in discontinued operations totaled \$77.1 million and \$352.0 million, respectively, and in the third quarter and for the nine months ended September 30, 2018, net gain from the sale and two months of operating activity included in discontinued operations totaled \$165.1 million and net gain from the sale and eight months of operating activity included in discontinued operations totaled \$175.1 million, respectively.

As previously disclosed, in March 2017 the Company sold Systemax Europe SARL and its subsidiaries (the "SARL Businesses") which had been included in the Company's former European Technology Products segment. The sale of the SARL Businesses met the "strategic shift with major impact" criteria as described above. For the three and nine month periods ended September 30, 2019, there were no net sales or net income (loss) of the SARL Businesses included in discontinued operations. For the three and nine month periods ended September 30, 2018, there were no net sales of the SARL Businesses included in discontinued operations. For the three and nine month periods ended September 30, 2018, net income of the SARL Businesses included in discontinued operations totaled \$0.0 million and \$0.2 million, respectively.

Also included in discontinued operations is the Company's former North American Technology Group ("NATG") business, which was sold in December 2015 and has been winding down its operations since then. The sale of the NATG business had a major impact on the Company and therefore certain components met the strategic shift criteria as defined under ASU 2014-08. Accordingly, these components and any related results of operations are reflected in discontinued operations. For the three and nine month periods ended September 30, 2019 and 2018, there were no net sales of the NATG business included in discontinued operations. Net loss from the NATG business was \$1.0 million and \$1.6 million, respectively, for the three and nine month periods ended September 30, 2019, and net loss from the NATG business was \$1.4 million and \$0.9 million, respectively, for the three and nine month periods ended September 30, 2018.

In the opinion of management, the accompanying condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial position of the Company as of September 30, 2019 and the results of operations for the three and nine month periods ended September 30, 2019 and 2018, statements of comprehensive income for the three and nine month periods ended September 30, 2019 and 2018, cash flows for the nine month periods ended September 30, 2019 and 2018 and changes in shareholders' equity for the three and nine month periods ended September 30, 2019 and 2018. The December 31, 2018 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, 2018.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements as of December 31, 2018 and for the year then ended included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018. The results for the nine month period ended September 30, 2019 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 2019 and 2018 fiscal third quarters ended on September 28 and September 29, respectively. The third quarters of both 2019 and 2018 included 13 weeks and the first nine months of both 2019 and 2018 included 39 weeks.

#### *Recent Accounting Pronouncements*

Public companies in the United States are subject to the accounting and reporting requirements of various authorities, including the Financial Accounting Standards Board ("FASB") and the Securities and Exchange Commission ("SEC"). These authorities issue numerous pronouncements, most of which are not applicable to the Company's current or reasonably foreseeable operating structure.

In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year, with early adoption permitted after adoption of ASU 2014-09. The Company adopted this standard beginning January 1, 2019 and its adoption did not materially impact the Company's consolidated financial position or results of operations.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurements*, which eliminates, adds or modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year, with early adoption permitted to adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Company is continuing to evaluate the effect of adopting this pronouncement but does not expect a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in Accounting Standards Codification 350-40 to determine which implementation costs to defer and recognize as an asset. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year, with early adoption permitted, including adoption in any interim period. The Company is continuing to evaluate the effect of adopting this pronouncement but does not expect a material impact on the Company's financial statements.

In June 2016, the FASB ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* as modified by subsequently issued ASU 2018-19. This ASU requires estimating credit losses for certain financial instruments, including trade receivables, held at the reporting date based on historical experience, current conditions and reasonable forecasts. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. The Company is continuing to evaluate the effect of adopting this pronouncement but does not expect a material impact on the Company's financial statements.

## **2. Leases**

On January 1, 2019, the Company adopted ASU 2016-02, *"Leases"* (Topic 842). This ASU requires all companies to record their operating and finance leases that meet certain criteria under the standard as Right of Use ("ROU") assets with the corresponding lease obligations recorded as short term and long term liabilities. The Company adopted this standard utilizing the modified retrospective transition method that allows for a cumulative-effect adjustment in the period of adoption of the new leasing standard without restating prior periods. There was no cumulative-effect adjustment made to opening retained earnings upon adoption of this ASU. Additionally, the Company elected to adopt the available package of practical expedients under the transition guidance.

The Company has operating and finance leases for office and warehouse facilities, headquarters and call centers and certain computer, communications equipment and machinery and equipment which provide the right to use the underlying assets in exchange for agreed upon lease payments, determined by the payment schedule contained in each lease. The Company determines if an arrangement is an operating or finance lease at the inception of the lease. The Company has elected not to apply recognition requirements to leases with terms of one year or less. All other leases are recorded on the balance sheet, with ROU assets representing the right to use the underlying asset for the lease term and lease liabilities representing the obligation to make lease payments arising from the lease. The Company's lease portfolio consists primarily of operating leases which expire at various dates through 2032.

The ROU assets and corresponding lease liabilities are recorded based upon the net present value of the remaining lease payments, discounted using interest rates determined by utilizing such factors as the Company's current credit facility terms, the length of the remaining term of the lease, the Company's expected debt credit rating and comparable company term loan yields. Adoption of the new standard resulted in the Company recording ROU assets and lease liabilities of approximately \$54 million and \$64 million, respectively, at January 1, 2019. Certain leases may include options to extend the lease, however the Company is not including any impact of such options in the valuation of its ROU assets or liabilities as they are not currently probable of being extended. The Company's lease agreements do not contain residual value guarantees or restrictive covenants. The Company has sublease agreements for certain unused facilities. For the three and nine month periods ended September 30, 2019, the Company recorded \$0.5 million and \$1.5 million, respectively, of sublease income in continuing and discontinued operations.

In April 2019, the Company entered into a lease agreement for a portion of a distribution facility located in Texas for approximately 490,000 square feet and a lease term of 125 months. The total lease obligation is approximately \$19.8 million. The Company is separately charged for real estate taxes, insurance and common area maintenance. The Company recorded an ROU asset and related lease liability of approximately \$14.7 million during the second quarter of 2019.

In the third quarter of 2019, the Company renewed certain leased facilities in Nevada and Shanghai. The restated and amended Nevada lease for business to business ("B2b") sales office space has a lease term of 60 months and the total lease obligation is approximately \$0.7 million. The Company is separately charged for real estate taxes, insurance and common area maintenance. The Company recorded an ROU asset and related lease liability of approximately \$0.6 million. The amended Shanghai lease for office space has a lease term of 24 months and the total lease obligation is \$0.1 million. The Company is separately charged for real estate taxes, insurance and common area maintenance. The Company recorded an ROU asset and related lease liability of \$0.1 million.

Also, in the third quarter of 2019, the Company's former German branch recorded approximately \$0.8 million gain related to a change in estimate of its outstanding lease obligation.

The following table details the Company's ROU asset operating lease cost, included in continuing operations, for the three and nine months ended September 30, 2019 (in millions):

	<b>Three Months Ended September 30, 2019</b>	<b>Nine Months Ended September 30, 2019</b>
Operating lease cost	\$ 3.2	\$ 8.9

The following tables detail the Company's ROU asset activity for continuing and discontinued operations as of September 30, 2019.

**Nine Months Ended  
September 30,  
2019**

**Weighted Average Remaining Lease Term**

Operating leases 8.4 years

**Weighted Average Discount Rate**

Operating leases 5.7%

Maturities of lease liabilities were as follows (in millions):

<b>Year Ending December 31</b>	<b>Operating Leases</b>
2019 (remaining three months)	\$ 2.0
2020	13.8
2021	10.6
2022	9.7
2023	9.7
Thereafter	45.1
<b>Total lease payments</b>	<b>90.9</b>
Less: interest	(19.8)
<b>Total present value of lease liabilities</b>	<b>\$ 71.1</b>

The Company currently leases its headquarters office facility from an entity owned by the Company's principal shareholders.

**3. Revenue**

The Company's revenue generated by its operating subsidiaries is comprised of sales of industrial and general business hard goods and supplies and to a lesser extent products that would fall into the generally recognizable category of MRO products, which are marketed in North America, that are sold by the IPG segment. IPG also has revenues from related activities, such as freight and, to a lesser extent, services.

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

The Company's performance obligation is primarily a single obligation to deliver products. The Company's performance obligations are satisfied when products are transferred to a customer in accordance with agreed upon shipping terms. Certain sales may include product and/or services that are distinct and accounted for as separate performance obligations. The Company's performance obligations for services are satisfied when the services are rendered. The Company's total service revenue is immaterial as it accounted for less than 1% of total revenue for the third quarter and nine months ended September 30, 2019 and 2018, respectively.

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

The Company records a contract liability in cases where customers pay in advance of the Company satisfying its performance obligation. The Company did not have any material unsatisfied performance obligations or liabilities as of September 30, 2019 and December 31, 2018, respectively.

The Company offers customers rights to return product within a certain time, usually 30 days. The Company estimates its sales returns liability quarterly, based upon its historical returns rates, as a percentage of historical sales for the trailing twelve-month period. The total accrued sales returns liability was approximately \$2.2 million and \$1.8 million at September 30, 2019 and December 31, 2018, respectively, and was recorded as a refund liability in Accrued expenses and other current liabilities in the accompanying Condensed Consolidated Balance Sheets.

#### *Disaggregation of Revenues*

IPG serves customers in diverse geographies, which are subject to different economic and industry factors. The Company's presentation of revenue by geography most reasonably depicts how the nature, amount, timing and uncertainty of Company revenue and cash flows are affected by economic and industry factors. Revenue is attributed to countries based on the location of the selling subsidiary.

The following table presents the Company's revenue by geography for the three and nine months ended September 30, 2019 and 2018 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales:				
MRO products and industrial supplies-United States	\$ 232.8	\$ 225.1	\$ 690.3	\$ 647.5
MRO products and industrial supplies-Canada	11.1	10.7	34.4	31.7
Consolidated	\$ 243.9	\$ 235.8	\$ 724.7	\$ 679.2

#### **4. Discontinued Operations and Special Charges (Gains)**

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

The Company's NATG discontinued operations incurred minimal special charges during the third quarter of 2019. For the nine months ended September 30, 2019, the Company received approximately \$0.2 million in vendor settlements and recorded approximately \$0.1 million of legal and professional fees. The Company expects that total additional charges related to the NATG business after this quarter will be approximately \$1.0 million and that these charges will be presented in discontinued operations.

The Company did not incur special charges related to the discontinued France business and discontinued SARL Businesses during the third quarter and nine months ended September 30, 2019.

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

In the third quarter ended September 30, 2018, there were a de minimis amount of legal and professional fees incurred related to the wind down of the SARL Businesses. For the nine months ended September 30, 2018, the Company's discontinued SARL Businesses recorded \$0.2 million recoveries of escrow funds, \$0.1 million of accelerated depreciation and \$0.1 million for legal and professional fees within discontinued operations.

In the third quarter ended September 30, 2018, the Company's NATG discontinued operations received \$0.3 million in restitution receipts, recorded \$1.8 million in lease reserve adjustments related to its exited leased facilities and recorded approximately \$0.1 million of favorable accrual adjustments related to legal and professional fees. For the nine months ended September 30, 2018, the Company received \$1.0 million in restitution receipts, received \$0.1 million in vendor settlements, recorded approximately \$0.1 million of legal and professional fees and recorded \$1.7 million in lease reserve adjustments related to its exited leased facilities.

In the third quarter and for the nine months ended September 30, 2019, the Company's former German branch recorded approximately \$0.8 million gain related to a change in estimate of its outstanding lease obligation. This amount was recorded in special charges, net in continuing operations.

In the third quarter and for the nine months ended September 30, 2018, the Company's former NATG operations recorded approximately \$0.8 million of lease reserve adjustments related to its exited leased facilities. This amount was recorded in special charges, net in continuing operations.

In the third quarter and for the nine months ended September 30, 2018, the Company's former German branch recorded approximately \$0.1 million of lease reserve adjustments related to its previously exited leased obligation. This amount was recorded in special charges, net in continuing operations.

Below is a summary of the impact on net sales, net income (loss) and net income (loss) per share from discontinued operations for the three and nine months ended September 30, 2019 and 2018.

Pretax income (loss) of Discontinued operations to the Net Income (loss) of discontinued operations is as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net sales	\$ 0.0	\$ 77.1	\$ 0.0	\$ 352.0
Cost of sales	0.0	66.2	0.0	295.8
Gross profit	0.0	10.9	0.0	56.2
Selling, distribution & administrative expenses	1.1	6.7	1.9	36.0
Pre-tax book gain on sale of France business	0.0	(178.2)	0.0	(178.2)
Special charges (gains)	0.0	1.4	(0.1)	0.7
Operating (loss) income from discontinued operations	(1.1)	181.0	(1.8)	197.7
Interest and other (income) expenses, net	0.0	0.1	0.0	(0.2)
Income (loss) from discontinued operations before income taxes	(1.1)	180.9	(1.8)	197.9
Provision (benefit) for income taxes	(0.1)	17.2	(0.2)	23.5
Net income (loss) from discontinued operations	\$ (1.0)	\$ 163.7	\$ (1.6)	\$ 174.4
Net income (loss) per share – basic	\$ (0.03)	\$ 4.40	\$ (0.04)	\$ 4.69
Net income (loss) per share – diluted	\$ (0.03)	\$ 4.32	\$ (0.04)	\$ 4.59

The following table details liabilities related to the sold NATG segment's non-lease components that remain as of September 30, 2019 (in millions):

	NATG – Non-lease components
Balance January 1, 2019	\$ 2.8
Charged to expense	0.7
Paid or otherwise settled	(0.5)
Balance September 30, 2019	\$ 3.0

On January 1, 2019 the Company reclassified approximately \$3.4 million of the opening balance of the NATG exit cost liability to ROU assets and operating lease obligations.

## 5. 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 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 0.3 million and 0.5 million shares for the three months ended September 30, 2019 and 2018, respectively, and 0.3 million shares and 0.6 million shares for the nine months ended September 30, 2019 and 2018, respectively. The weighted average number of restricted stock awards included in the computation of diluted earnings per share was 0.2 million and 0.2 million shares for the three months ended September 30, 2019 and 2018, respectively, and 0.2 million shares and 0.2 million shares for the nine months ended September 30, 2019 and 2018, respectively. The weighted average number of stock options outstanding excluded from the computation of diluted earnings per share due to their antidilutive effect was 0.5 million shares and zero shares for the three months ended September 30, 2019 and 2018, respectively, and 0.4 million shares and zero shares for the nine months ended September 30, 2019 and 2018, respectively.

## 6. Credit Facilities

The Company maintains a \$75 million secured revolving credit facility with one financial institution, which has a five year term, maturing on October 28, 2021 and provides for borrowings in the United States. The credit agreement contains certain operating, financial and other covenants, including limits on annual levels of capital expenditures, availability tests related to payments of dividends and stock repurchases and fixed charge coverage tests related to acquisitions. The revolving credit agreement requires that a minimum level of availability be maintained. If such availability is not maintained, the Company will be required to maintain a fixed charge coverage ratio (as defined). The borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and the inventory advance rate computed as the lesser of 60% or 85% of the net orderly liquidation value ("NOLV"). Borrowings are secured by substantially all of the Borrower's assets, as defined, including all accounts, accounts receivable, inventory and certain other assets, subject to limited exceptions, including the exclusion of certain foreign assets from the collateral. The interest rate under the amended and restated facility is computed at applicable market rates based on the London interbank offered rate ("LIBOR"), the Federal Reserve Bank of New York ("NYFRB") or the Prime Rate, plus an applicable margin. The applicable margin varies based on borrowing base availability. As of September 30, 2019, eligible collateral under the credit agreement was \$75.0 million, total availability was \$73.0 million, total outstanding letters of credit were \$1.3 million, total excess availability was \$71.7 million and there were no outstanding borrowings. The Company was in compliance with all of the covenants of the credit agreement in place as of September 30, 2019.

## 7. Fair Value Measurements

Financial instruments consist primarily of investments in cash, trade accounts receivable, debt and accounts payable. The Company estimates the fair value of financial instruments based on interest rates available to the Company. At September 30, 2019 and 2018, the carrying amounts of cash, accounts receivable and accounts payable are considered to be representative of their respective fair values due to their short-term nature. Cash is classified as Level 1 within the fair value hierarchy. The Company's debt is considered to be representative of its fair value because of its variable interest rate.

The fair value with respect to goodwill and non-amortizing intangibles assets is measured in connection with the Company's annual impairment testing. The Company performs a qualitative assessment of goodwill and non-amortizing intangibles to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the

qualitative assessment shows that the fair value of the reporting unit exceeds its carrying amount, the Company is not required to complete the annual two step goodwill impairment test. If a quantitative analysis is required to be performed for goodwill, the fair value of the reporting unit to which the goodwill has been assigned is determined using a discounted cash flow model. A discounted cash flow model is also used to determine fair value of indefinite-lived intangibles using projected cash flows of the intangible. Unobservable inputs related to these discounted cash flow models include projected sales growth, gross margin percentages, new business opportunities, working capital requirements, capital expenditures and growth in selling, distribution and administrative expense. Any excess of a reporting unit's carrying amount over fair value would be charged to impairment expense.

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

## **8. Legal Proceedings**

The Company and its subsidiaries are from time to time involved in various lawsuits, claims, investigations and proceedings which may include commercial, employment, tax, customs and trade, customer, vendor, personal injury, creditors rights and health and safety law matters, which are handled and defended in the ordinary course of business. In addition, the Company is from time to time subjected to various assertions, claims, proceedings and requests for damages and/or indemnification concerning sales channel practices and intellectual property matters, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells or that are incorporated in the Company's e-commerce sales channels, as well as trademark/copyright infringement claims. The Company is also audited by (or has initiated voluntary disclosure agreements with) various U.S. Federal and state authorities, as well as Canadian authorities, concerning potential income tax, sales tax and/or "unclaimed property" liabilities. These matters are in various stages of investigation, negotiation and/or litigation. The Company was audited by an entity representing 28 states seeking recovery of "unclaimed property" and has received separate demands from 20 states requesting payments of their claimed amounts. The Company is complying with the unclaimed property audit, is providing requested information and is corresponding with the states regarding possible further discussions. The Company intends to vigorously defend these matters and believes it has strong defenses. In September 2017 the Company and certain subsidiaries comprising its former NATG "Tiger" consumer electronics business were sued in United States District Court, Northern District of California by a software publisher alleging that the NATG subsidiaries violated certain contractual sales channel restrictions resulting in claims of breach of contract and trademark/copyright infringement. Although Systemax Inc. has been dismissed from the case, the Company is continuing to assess the remaining claims against and the defenses available to the remaining subsidiary defendants and related possible insurance coverage; trial is scheduled to begin in December 2019. The Company cannot predict the outcome of this matter and believes the potential damages, if any, cannot be estimated at this time.

Although the Company does not expect, based on currently available information, that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial position or results of operations, the ultimate outcome is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. The Company regularly assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable and estimable. In this regard, the Company establishes accrual estimates for its various lawsuits, claims, investigations and proceedings when it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and the loss can be reasonably estimated. At September 30, 2019 the Company has established accruals for certain of its various lawsuits, claims, investigations and proceedings based upon estimates of the most likely outcome in a range of loss or the minimum amounts in a range of loss if no amount within a range is a more likely estimate. The Company does not believe that at September 30, 2019 any reasonably possible losses in excess of the amounts accrued would be material to the financial statements.

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

### **Forward-Looking Statements**

This report contains forward-looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Additional written or oral forward-looking statements may be made by the Company from time to time, in filings with the Securities and Exchange Commission or otherwise. Statements contained in this report that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and are based on management's estimates, assumptions and projections and are not guarantees of future performance. Forward-looking statements may include, but are not limited to, projections or estimates of revenue, income or loss, exit costs, cash flow needs and capital expenditures, fluctuations in general economic conditions, future operations, plans relating to new distribution facilities, plans for utilizing alternative sources of supply in response to government tariff and trade actions, and plans for new products or services, plans for acquisition or sale of businesses, including expansion or restructuring plans, such as our exit from and winding down of our sold North American Technology Group ("NATG") operations and European operations, financing needs, compliance with financial covenants in loan agreements, assessments of materiality, predictions of future events and the effects of pending and possible litigation and assumptions relating to the foregoing. In addition, when used in this discussion, the words "anticipates," "believes," "estimates," "expects," "intends," "plans" and variations thereof and similar expressions are intended to identify forward-looking statements.

Other factors that may affect our future results of operations and financial condition include, but are not limited to, unanticipated developments in any one or more of the following areas, as well as other factors which may be detailed from time to time in our Securities and Exchange Commission filings: general economic conditions, such as customer inventory levels, interest rates, borrowing ability and economic conditions in the manufacturing industry generally, will continue to impact our business; the imposition of tariffs and other trade barriers, as well as retaliatory trade measures, have caused us to raise the prices on certain of our products and seek alternate sources of supply, which could negatively impact our sales or disrupt our operations in the future; increases in freight and shipping costs have from time to time impacted our margins to the extent the increases could not be passed along to customers in a timely manner and may impact our margins again in the future, and factors affecting the shipping and distribution of products imported to the United States by us or our domestic vendors, such as global availability of shipping containers and fuel costs; our reliance on common carrier delivery services for shipping inventoried merchandise to customers; our reliance on drop ship deliveries directly to customers by our product vendors for products we do not hold in inventory; delays in the timely availability of products from our suppliers could delay receipt of needed product and result in lost sales; our ability to maintain available capacity in our distribution operations for stocked inventory and to enable on time shipment and deliveries, such as by timely implementing additional temporary or permanent distribution resources, whether in the form of additional facilities we operate or by outsourcing certain functions to third party distribution and logistics partners; we compete with other companies for recruiting, training, integrating and retaining talented and experienced employees, particularly in markets where we and they have central distribution facilities; this aspect of competition is aggravated by the current tight labor market in the U.S.; risks involved with e-commerce, including possible loss of business and customer dissatisfaction if outages or other computer-related problems should preclude customer access to our products and services; our information systems and other technology platforms supporting our sales, procurement and other operations are critical to our operations and disruptions or delays have occurred and could occur in the future, and if not timely addressed could have a material adverse effect on us; a data security breach due to our e-commerce, data storage or other information systems being hacked by those seeking to steal Company, vendor, employee or customer information, or due to employee error, resulting in disruption to our operations, litigation and/or loss of reputation or business; managing various inventory risks, such as being unable to profitably resell excess or obsolete inventory and/or the loss of product return rights from our vendors; meeting credit card industry compliance standards in order to maintain our ability to accept credit cards; rising interest rates, increased borrowing costs or limited credit availability, including our own ability to maintain satisfactory credit agreements and to renew credit facilities, could impact both our and our customers' ability to fund purchases and conduct operations in the ordinary course; pending or threatened litigation and investigations, as well as anti-dumping and other government trade and customs proceedings, could adversely affect our business and results of operations; sales tax laws or government enforcement priorities may be changed which could result in e-commerce and direct mail retailers having to collect sales taxes in states where the current laws and/or prior interpretations do not require us to do so; and extreme weather conditions could disrupt our product supply chain and our ability to ship or receive products, which would adversely impact sales.

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

Condition and Results of Operations” and the Notes to Condensed Consolidated Financial Statements, as well as information under the heading “Risk Factors” in our Annual Report on Form 10-K for fiscal year 2018, describe certain factors, among others, that could contribute to or cause such differences.

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

## Overview

Systemax Inc., through its operating subsidiaries, sells a wide array of industrial and general business hard goods and supplies and to a lesser extent products that would fall into the generally recognizable category of maintenance, repair and operations (“MRO”) products, which are marketed in North America. Many of these products are manufactured by other companies. Some products are manufactured for us and sold under our brand as a white label product, and some are manufactured to our own design and sold under our brand as a private label product, in each case marketed under our trademarks such as: *Global*<sup>TM</sup>, *GlobalIndustrial.com*<sup>TM</sup>, *Nexel*<sup>TM</sup>, *Paramount*<sup>TM</sup> and *Interion*<sup>TM</sup>. As a result of the sale of its France-based IT value added reseller business in August 2018, the Company operates and is internally managed in one reportable business segment, Industrial Products Group (“IPG”), which includes its former Corporate and other segment.

On August 31, 2018, the Company closed on the sale of its France-based IT value added reseller business. The sale was denominated on a cash-free, debt-free basis and included normalized working capital adjustments. The France business had been included in the Company’s former European Technology Products segment. Initially, the Company was providing limited transition services to the France business for a period of up to six months, following the closing, under a transition services agreement. This transition services agreement which was extended in the first quarter of 2019 for an additional six month period ended in the third quarter of 2019.

On March 24, 2017 the Company sold Systemax Europe SARL and its subsidiaries (the “SARL Businesses”), which had been included in the Company’s former European Technology Products segment.

The sale of the France business and SARL Businesses met the “strategic shift with major impact” criteria as defined under Accounting Standards Update (“ASU”) 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which allows for dispositions with major impact to be presented in the financial statements as discontinued operations. Therefore, the prior year results of the France business and SARL Businesses are included in discontinued operations in the accompanying condensed consolidated financial statements. The Company recorded a pre-tax book gain on the sale of the business of approximately \$178.2 million. The pre-tax book gain included proceeds from the sale of approximately \$267.3 million offset by the \$82.5 million of net assets sold, \$1.5 million for accelerated amortization expense of restricted stock units and stock options and by \$5.1 million of deal transaction costs related to the sale. For the three months ended September 30, 2019 and 2018, net sales of the France business included in discontinued operations totaled \$0 and \$77.1 million, respectively, and for the nine months ended September 30, 2019 and 2018, net sales totaled \$0 and \$352.0 million, respectively. In the third quarter and for the nine months ended September 30, 2018, net gain from the sale and two months of operating activity included in discontinued operations totaled \$165.1 million and net gain from the sale and eight months of operating activity included in discontinued operations totaled \$175.1 million, respectively. In the third quarter and nine month periods ended September 30, 2019 and 2018, there were no net sales recorded for discontinued SARL Businesses within discontinued operations. In the third quarter and nine months ended September 30, 2019, there was no net income (loss) included in discontinued operations related to the SARL Businesses. For the three and nine month periods ended September 30, 2018, net income of the SARL Businesses included in discontinued operations totaled \$0.0 million and \$0.2 million, respectively.

On December 1, 2015, the Company sold its NATG operating businesses and began the wind-down of its remaining NATG operations. The sale of the NATG business had a major impact on the Company and therefore certain components met the strategic shift criteria as defined under ASU 2014-08. In the third quarter and nine month periods ended September 30, 2019 and 2018, there were no net sales recorded for discontinued NATG operations within discontinued operations. In the third quarter and nine months ended September 30, 2019, net loss of the discontinued NATG operations totaled \$1.0 million and \$1.6 million, respectively, and for the three and nine months ended September 30, 2018, net loss totaled \$1.5 million and \$0.9 million, respectively.

In order to provide more meaningful information to investors, the Company is presenting its operating income and operating margin on a non-GAAP basis in the "Reconciliation of Consolidated GAAP Operating Income from Continuing Operations to Consolidated Non-GAAP Operating Income from Continuing Operations" table. This non-GAAP presentation reflects the Misco Germany and NATG operations as discontinued operations for all periods presented. Additional non-GAAP adjustments for executive separation and transition costs, intangible amortization and equity compensation are made to continuing operations. Management's Discussion and Analysis that follows will include our current and discontinued operations.

### **Continuing Operations**

The Company sells a wide array of industrial and general business hard goods and supplies and to a lesser extent products that would fall into the generally recognizable category of MRO products, which are marketed in North America. Many of these products are manufactured by other companies. Some products are manufactured for us and sold under our brand as a white label product, and some are manufactured to our own design and sold under our brand as a private label product, in each case marketed under our trademarks such as: *Global*<sup>TM</sup>, *GlobalIndustrial.com*<sup>TM</sup>, *Nexel*<sup>TM</sup>, *Paramount*<sup>TM</sup> and *Interion*<sup>TM</sup>.

See Note 3 to the condensed consolidated financial statements for additional financial information about our business' geographic operations.

### **Discontinued Operations**

As disclosed above, the operating results of discontinued operations in the accompanying financial statements are primarily from the France business sold in August 2018 and the NATG business sold in 2015.

### **Operating Conditions**

The North American industrial products market is highly fragmented and we compete against numerous competitors in multiple distribution channels. Industrial products distribution is working capital intensive, requiring us to incur significant costs associated with the warehousing of many products, including the costs of maintaining inventory, leasing warehouse space, inventory management systems and employing personnel to perform the associated tasks. We supplement our on-hand product availability by maintaining relationships with major distributors and manufacturers, utilizing a combination of stock and drop-shipment fulfillment.

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

In the discussion of our results of operations, constant currency refers to the adjustment of the results of our foreign operations to exclude the effects of period to period fluctuations in currency exchange rates.

The discussion of our results of operations and financial condition that follows will provide information that will assist in understanding our financial statements, the factors that we believe may affect our future results and financial condition as well as information about how certain accounting principles and estimates affect the consolidated financial statements. This discussion should be read in conjunction with the condensed consolidated financial statements included herein and in conjunction with the audited financial statements as of December 31, 2018 and the other information provided in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

### **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 2018 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; inventory valuation; right of use assets; goodwill and intangible assets; long-lived assets; income taxes; and special charges (gains). 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, 2018. There have been no significant changes in the application of critical accounting policies or estimates during 2019. Management believes that full consideration has been given to all relevant circumstances that we may be subject to, and the condensed consolidated financial statements of the Company accurately reflect management's best estimate of the consolidated results of operations, financial position and cash flows of the Company for the periods presented. Because of the uncertainty in these estimates, actual results could differ from estimates used in applying the critical accounting policies. We are not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect the Company's financial condition or results of operations.

Public companies in the United States are subject to the accounting and reporting requirements of various authorities, including the Financial Accounting Standards Board ("FASB") and the Securities and Exchange Commission ("SEC"). These authorities issue numerous pronouncements, most of which are not applicable to the Company's current or reasonably foreseeable operating structure. See Note 1 of the condensed consolidated financial statements, *Recent Accounting Pronouncements*.

### **Highlights from Q3 2019 and Year to Date Q3 2019**

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

- Consolidated sales increased 3.4% to \$243.9 million for the third quarter ended September 30, 2019 compared to \$235.8 million in 2018 and increased 6.7% to \$724.7 million for the nine months ended September 30, 2019 compared to \$679.2 million in 2018.
- On a constant currency basis, average daily sales increased 3.5% for the third quarter ended September 30, 2019 compared to 2018 and increased 6.9% for the nine months ended September 30, 2019 compared to 2018.
- Consolidated operating income increased 0.5% to \$18.5 million for the third quarter ended September 30, 2019 compared to \$18.4 million in 2018. Operating income included \$1.7 million of costs incurred in the quarter within our new Texas distribution center where we commenced receiving and shipping operations in the third quarter of 2019. Operating income grew 8.2% to \$51.7 million for the nine months ended September 30, 2019 compared to \$47.8 million in 2018.
- Net income per diluted share from continuing operations decreased 10.0% to \$0.36 for the third quarter ended September 30, 2019 compared to \$.40 in 2018 and grew 4.1% to \$1.02 for the nine months ended September 30, 2019 compared to \$0.98 in 2018.

**GAAP Results of Operations**

**Three and Nine Months Ended September 30, 2019 compared to the Three and Nine Months Ended September 30, 2018**

Key Performance Indicators\* (in millions):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	% Change	2019	2018	% Change
<i>Net sales of continuing operations:</i>						
Consolidated net sales	\$ 243.9	\$ 235.8	3.4 %	\$ 724.7	\$ 679.2	6.7 %
Consolidated gross profit	\$ 84.4	\$ 82.2	2.7 %	\$ 250.7	\$ 234.7	6.8 %
<i>Consolidated gross margin</i>	34.6%	34.9%	(0.3)%	34.6%	34.6%	0.0 %
Consolidated SD&A costs**	\$ 65.9	\$ 63.8	3.3 %	\$ 199.0	\$ 186.9	6.5 %
Consolidated SD&A costs** as a % of net sales	27.0%	27.1%	(0.1)%	27.5%	27.5%	0.0 %
Consolidated operating income	\$ 18.5	\$ 18.4	0.5 %	\$ 51.7	\$ 47.8	8.2 %
<i>Consolidated operating margin from continuing operations</i>	7.6%	7.8%	(0.2)%	7.1%	7.0%	0.1 %
Effective income tax rate	25.5%	19.3%	6.2 %	25.3%	22.5%	2.8 %
Net income from continuing operations	\$ 13.7	\$ 15.1	(9.3)%	\$ 38.6	\$ 37.2	3.8 %
<i>Net margin from continuing operations</i>	5.6%	6.4%	(0.8)%	5.3%	5.5%	(0.2)%
Net income (loss) from discontinued operations	\$ (1.0)	\$ 163.7	(100.6)%	\$ (1.6)	\$ 174.4	(100.9)%

\*excludes discontinued operations (See Note 4 of Notes to Condensed Consolidated Financial Statements).

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

**SYSTEMAX INC.**  
**Reconciliation of Consolidated GAAP Operating Income from Continuing Operations to Consolidated Non-GAAP Operating Income from Continuing Operations – Unaudited**  
(In millions)

GAAP:	Three Months Ended September 30,		Change 2019 vs. 2018	Nine Months Ended September 30,		Change 2019 vs. 2018
	2019	2018		2019	2018	
Net sales	\$ 243.9	\$ 235.8	3.4 %	\$ 724.7	\$ 679.2	6.7%
Average daily sales*	\$ 3.9	\$ 3.7	3.5 %	\$ 3.8	\$ 3.6	6.9%
Operating income	\$ 18.5	18.4	0.5 %	\$ 51.7	\$ 47.8	8.2%
<b>Operating margin%</b>	7.6%	7.8%		7.1%	7.0%	
<b>Non-GAAP adjustments:</b>						
Executive separation & transition costs	0.2	0.0		1.2	0.0	
Stock based compensation	0.9	0.0		3.3	0.5	
Intangible amortization	0.0	0.3		0.1	0.8	
Reverse results of Germany and NATG included in GAAP operating income continuing operations	(0.8)	0.9		(0.7)	0.9	
Total Non-GAAP Adjustments:	0.3	1.2		3.9	2.2	
<b>Non-GAAP operating income</b>	<b>\$ 18.8</b>	<b>\$ 19.6</b>	<b>(4.1)%</b>	<b>\$ 55.6</b>	<b>\$ 50.0</b>	<b>11.2%</b>
<b>Non-GAAP Operating Margin %</b>	<b>7.7%</b>	<b>8.3%</b>		<b>7.7%</b>	<b>7.4%</b>	

\* Average daily sales is calculated based upon the number of selling days in each period, converted to US Dollars on a constant currency basis. In Q3 2019 and 2018 there were 63 selling days in the U.S and for the first nine months of 2019 and 2018 there were 191 selling days. In Canada there were 62 selling days in Q3 2019 and 2018 and for the first nine months of 2019 and 2018 there were 188 selling days.

1 On August 31, 2018, the Company closed on the sale of the France operations. Results of this divested business have been classified as discontinued operations for all periods presented. On March 24, 2017, the Company closed on the sale of its European Technology Group businesses, other than its operations in France. Prior year results of these divested businesses have been classified as discontinued operations. On December 1, 2015 the Company closed on the sale of certain assets of its North American Technology Group (“NATG”). Pursuant to this transaction, the Company continues to wind down the remaining operations of NATG during 2019. Costs of the wind down in the third quarter and nine months ended September 30, 2019 are included within discontinued operations and for the third quarter and nine months ended September 30, 2018 are included within continuing and discontinued operations.

2 In order to provide additional meaningful information to investors, the Company is presenting its operating income and operating margin on a non-GAAP basis in the “Reconciliation of Consolidated GAAP Operating Income from Continuing Operations to Consolidated Non-GAAP Operating Income from Continuing Operations” table. This non-GAAP presentation reflects the NATG and Misco Germany operations as discontinued operations for all periods presented. Additional non-GAAP adjustments for executive separation and transition costs, intangible amortization and equity compensation are made to continuing operations.

3 Systemax manages its business and reports using a 52-53 week fiscal year that ends at midnight on the Saturday closest to December 31. For clarity of presentation, fiscal years and quarters are described as if they ended on the last day of the respective calendar month. The actual 2019 and 2018 fiscal third quarters ended on September 28 and September 29, respectively. The third quarters of both 2019 and 2018 included 13 weeks and the first nine months of 2019 and 2018 included 39 weeks.

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

#### *NET SALES*

The Company's net sales increased 3.4% in the third quarter of 2019 compared to prior year reflecting the soft market environment and a cautious but committed customer base. Revenue in the year ago quarter was also impacted by a large project-based customer order which negatively impacted our third quarter 2019 and nine months ended September 30, 2019 growth rate by approximately 50 basis points and 20 basis points, respectively. In our Canada business, net sales were up approximately 5.3% in local currency on an average daily sales basis for the quarter and 12.2% for the nine months ended September 30, 2019 compared to the same period in 2018. U.S. revenue was up 3.4% in the quarter ended September 30, 2019 compared to the same period in 2018 and up 6.6% for the nine months ended September 30, 2019. On a constant currency basis, average daily sales increased 3.5% for the third quarter of 2019 compared to the same period in 2018 and increased 6.9% for the nine months ended September 30, 2019. In the U.S., there were 63 selling days in the third quarter of 2019 and 2018 and 191 selling days for the nine months ended September 30, 2019 and 2018. In Canada there were 62 selling days in the third quarter of 2019 and 2018 and 188 selling days for the nine months ended September 30, 2019 and 2018.

#### *GROSS MARGIN*

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

Gross margin was 34.6% in the third quarter of 2019 compared to 34.9% in the third quarter of 2018 down 30 basis points but consistent with the first and second quarter of 2019 and the nine months ended September 30, 2019 and 2018. The stable gross margin performance reflects proactive management of our inventory, purchasing and pricing as the Company continues to address the tariffs, enacted in June 2019 and September 2018, which were levied by the U.S. on products imported from China. The Company continues to believe that any impact from these tariffs will be gradual as it monitors sell prices in the market, continues to work with suppliers to mitigate costs, and actively reviews its supply chain.

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

SD&A costs as a percentage of sales was 27.3% in the third quarter of 2019 compared to 26.7% for the same period in 2018. SD&A leverage contracted in the quarter primarily as a result of the costs associated with our new Texas distribution facility, which more than offset the improved efficiencies in other parts of the business. Included in the third quarter of 2019 was approximately \$1.5 million of operating expenses for our new Texas distribution facility which commenced receiving and shipping operations in the third quarter and approximately \$0.9 million of ongoing stock-based compensation expense. Excluding these expenses, SD&A costs as a percentage of sales improved 30 basis points compared with prior year. In the third quarter of 2019, the significant cost increases were increased salary and related costs including all stock-based compensation of approximately \$2.3 million, of which \$0.9 million related to ongoing stock-based compensation expense and \$0.5 million was related to our new Texas distribution facility, increased internet advertising spend of approximately \$0.5 million, \$0.5 million of net trade show expenses and \$1.0 million of other operating costs associated with our new Texas distribution facility.

For the nine months ended September 30, 2019 SD&A costs as a percentage of sales was 27.6% compared to 27.4% for the same period in 2018. Included in the first nine months of 2019 was approximately \$1.9 million of operating costs related to the new Texas distribution facility, \$1.2 million of executive separation and transition costs and \$3.3 million of stock-based compensation costs of which \$0.6 million related to the repricing of stock options which occurred in the first quarter of 2019. Excluding these expenses, SD&A for the first nine months of 2019 improved 60 basis points as a percentage of sales compared to the same period in 2018. The significant cost increases for the nine months ended September 30, 2019 were increased salary and related costs including all stock-based compensation of approximately \$9.6 million, of which \$4.5 million related to executive separation and transition costs and stock-based compensation expense previously mentioned and \$0.5 million related to our new Texas distribution facility, increased internet advertising spend of approximately \$2.4 million, increased contract services of approximately \$1.0 million, increased net trade show of approximately \$0.2 million and approximately \$1.4 million of other operating costs associated with our new distribution center.

#### *DISCONTINUED OPERATIONS AND SPECIAL CHARGES (GAINS)*

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

Total special charges and gains included in discontinued operations totaled zero for the third quarter of 2019 and \$0.1 million gain for the nine months of 2019. For the third quarter and nine months ended September 30, 2018, the Company recorded \$178.2 million of pre-tax book gain on the sale of the France business and recorded \$1.4 million and \$0.7 million, respectively, of special charges related to the discontinued NATG and SARL Businesses for the third quarter and nine months ended September 30, 2018.

#### *CONTINUING OPERATIONS SPECIAL CHARGES (GAINS)*

During the third quarter of 2019 and for the nine months ended September 30, 2019, the Company's former German branch recorded special gains of approximately \$0.8 million related to a change in estimate of its outstanding lease obligation. During the third quarter of 2018 and for the nine months ended September 30, 2018, the Company's former NATG and German operations recorded approximately \$0.8 million and \$0.1 million, respectively, of special charges for lease reserve adjustments related to its existed lease obligations.

#### *OPERATING MARGIN*

Operating margin for the third quarter of 2019 decreased 20 basis points to 7.6% from 7.8% for the same period in 2018 and was 7.1% for the nine months ended September 30, 2019 compared to 7.0% for the same period in 2018. The decrease in operating margin for the quarter was primarily a result of the costs associated with our new distribution center in Texas which more than offset improved efficiencies in other parts of the business. This new facility investment will allow the Company to significantly increase service levels through same day shipping and next day delivery, an important factor in the customer buying decision. We will continue to optimize the performance of our national network and expect to see improved leverage in our operations. Operating margin benefited in the quarter and nine months ended September 30, 2019 from a gain related to a change in estimate on the outstanding lease obligation of a former IT distribution business in Germany.

#### *INTEREST AND OTHER (INCOME) EXPENSE, NET*

Interest and other (income) expense, net from continuing operations was \$0.1 million expense in the third quarter of 2019 and zero for the nine months ended September 30, 2019 compared to \$0.3 million and \$0.2 million income in the third quarter and nine months ended September 30, 2018, respectively. The interest and other income, net reported in third quarter of 2018 and nine months ended September 30, 2018 is primarily attributable to the interest earned on our short term investments from the cash repatriated to the United States from the sale of the France-based IT business.

#### *INCOME TAXES*

For the quarter ended September 30, 2019, the Company recorded income taxes in continuing operations of approximately \$4.7 million for an effective tax rate of 25.5% compared to \$3.6 million for an effective tax rate of 19.3% in 2018. The Company's tax expense for the third quarter of 2018 was favorably impacted by tax benefits related to stock-based compensation of approximately \$1.1 million. For the first nine months of 2019, the Company reported income taxes in continuing operations of approximately \$13.1 million for an effective tax rate of 25.3% compared to \$10.8 million in 2018 for an effective tax rate of 22.5%. The lower effective tax rate in 2018 resulted from higher tax benefits realized on stock-based compensation in 2018. The Company's tax expense for the nine months of 2019 and 2018 was favorably impacted by tax benefits related to stock-based compensation of approximately \$0.3 million and \$1.7 million, respectively. Tax expense in 2019 and 2018 is related to the Company's U.S. and India operations and certain U.S. states.

For Canadian tax purposes, the Company continues to carry a full valuation allowance against its deferred tax assets in Canada in 2019, including its net operating losses, and no tax expense has been recorded.

#### **Financial Condition, Liquidity and Capital Resources**

The following tables present selected liquidity data and historical cash flows (in millions):

##### *Selected liquidity data*

	September 30, 2019	December 31, 2018	\$ Change
Cash	\$ 97.6	\$ 295.4	\$ (197.8)
Accounts receivable, net	\$ 96.1	\$ 84.1	\$ 12.0
Inventories	\$ 102.3	\$ 107.3	\$ (5.0)
Prepaid expenses and other current assets	\$ 6.7	\$ 10.6	\$ (3.9)
Accounts payable	\$ 119.9	\$ 101.1	\$ 18.8
Dividend payable	\$ 0.0	\$ 243.5	\$ (243.5)
Accrued expenses and other current liabilities	\$ 40.1	\$ 35.0	\$ 5.1
Operating lease liabilities	\$ 11.2	\$ 0.0	\$ 11.2
Working capital	\$ 131.5	\$ 117.8	\$ 13.7

*Historical Cash Flows*

	Nine Months Ended September 30,	
	2019	2018
Net cash provided by operating activities from continuing operations	\$ 64.9	\$ 15.2
Net cash used in operating activities from discontinued operations	\$ 0.0	\$ (35.1)
Net cash used in investing activities from continuing operations	\$ (6.2)	\$ (2.9)
Net cash provided by investing activities from discontinued operations	\$ 0.0	\$ 249.6
Net cash used in financing activities from continuing operations	\$ (256.4)	\$ (111.5)
Effects of exchange rates on cash	\$ (0.1)	\$ 3.0
Net increase (decrease) in cash and cash equivalents	\$ (197.8)	\$ 118.3

Our primary liquidity needs are to support working capital requirements in our business, including the start up costs for our new Texas distribution center which commenced receiving and shipping operations in the third quarter of 2019, funding recently declared and any future dividends, funding capital expenditures, continued investment in upgrading and expanding our technological capabilities and information technology infrastructure and funding acquisitions. We rely principally upon operating cash flow to meet these needs. We believe that cash flow available from these sources and our availability under our credit facility will be sufficient to fund our working capital and other cash requirements for at least the next twelve months. We believe our current capital structure and cash resources are adequate for our internal growth initiatives. To the extent our growth initiatives expand, including major acquisitions, we may seek to raise additional capital. We believe that, if needed, we can access public or private funding alternatives to raise additional capital.

Our working capital increased \$13.7 million primarily related to net income in the first nine months of 2019, increased accounts receivable balances offset by decreasing balances in inventory, prepaid and other current assets compared to increased balances in accounts payable and dividends paid in 2019, accrued expenses and the recording of \$11.2 million of current operating lease liabilities. Accounts receivable days outstanding were 35.6 in 2019 compared to 33.7 in 2018. Inventory turns were 5.9 in 2019 and 6.5 in 2018 and accounts payable days outstanding were 66.2 in 2019 compared to 69.2 in 2018. We expect that future accounts receivable, inventory and accounts payable balances will fluctuate with net sales and the product mix of our net sales.

Net cash provided by continuing operations was \$64.9 million resulting from changes in our working capital accounts, which provided \$20.1 million in cash compared to \$26.6 million used in 2018, primarily the result of the changes in accounts payable balances and additional changes in inventory balances, accrued expenses and other current and non-current liabilities. Cash generated from net income adjusted by other non-cash items provided \$44.8 million compared to \$41.8 million provided by these items in 2018, primarily related to the net income from continuing operations and increased stock-based compensation expense in 2019 offset by the favorable gain on the change in estimate of an outstanding lease obligation from our former German branch. In the first quarter of 2019, the Company repriced approximately 0.6 million shares of outstanding stock options and recorded approximately \$0.6 million of related compensation expense. Net cash used in operating activities from discontinued operations was zero for the nine months ended September 30, 2019 and \$35.1 million for the nine months ended September 30, 2018. Cash used in discontinued operations in 2018 was primarily related to the Company's sold France-based IT business.

Net cash used in investing activities from continuing operations in 2019 totaled \$6.2 million, primarily related to the Company's new distribution center in Texas and other warehouse projects including wire decking, in-rack sprinkler systems and warehouse lighting. Net cash used in investing activities from continuing operations in 2018 totaled \$2.9 million, primarily for warehouse and information technology equipment and leasehold improvements. Net cash used in investing activities from discontinued operations was zero for the nine months ended September 30, 2019 and net cash provided by investing activities from discontinued operations was \$249.6 million for the nine months ended September 30, 2018. Cash provided by discontinued operations in 2018 was primarily related to Company's sold France-based IT business.

Net cash used in financing activities totaled \$256.4 million primarily related to the payment of the special dividend declared in December 2018 of \$243.5 million and regular quarterly dividends which totaled approximately \$13.6 million. Proceeds from the issuance of common stock from employee stock purchase plan was \$0.8 million and proceeds from stock option exercises was \$0.8 million, offset by payments of payroll taxes on stock based compensation through shares withheld of \$0.9 million. In 2018, cash used in financing activities totaled \$111.5 million and included approximately \$105.2 million for dividends paid and \$9.1 million of stock repurchases. Proceeds from stock option exercises was \$4.2 million offset by \$1.4 million of payments of payroll taxes on stock based compensation through shares withheld.

The Company maintains a \$75.0 million secured revolving credit facility with one financial institution, which has a five year term, maturing on October 28, 2021 and provides for borrowings in the United States. The credit agreement contains certain operating, financial and other covenants, including limits on annual levels of capital expenditures, availability tests related to payments of dividends and stock repurchases and fixed charge coverage tests related to acquisitions. The revolving credit agreement requires that a minimum level of availability be maintained. If such availability is not maintained, the Company will be required to maintain a fixed charge coverage ratio (as defined). The borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and the inventory advance rate computed as the lesser of 60% or 85% of the net orderly liquidation value ("NOLV"). Borrowings are secured by substantially all of the Borrower's assets, including all accounts receivable, inventory and certain other assets, subject to limited exceptions, including the exclusion of certain foreign assets from the collateral. The interest rate under the amended and restated facility is computed at applicable market rates based on the London interbank offered rate ("LIBOR"), the Federal Reserve Bank of New York ("NYFRB") or the Prime Rate, plus an applicable margin. The applicable margin varies based on borrowing base availability. As of September 30, 2019, eligible collateral under the credit agreement was \$75.0 million, total availability was \$73.0 million, total outstanding letters of credit were \$1.3 million, excess availability was \$71.7 million and there were no outstanding borrowings. The Company was in compliance with all of the covenants of credit agreement in place as of September 30, 2019.

We also have certain obligations with various parties that include commitments to make future payments. Our principal commitments at September 30, 2019 consisted of payments under operating leases for certain of our real property and equipment and payments under employment, product and other service agreements.

Levels of earnings and cash flows are dependent on factors such as consolidated gross margin and selling, distribution and administrative costs as a percentage of sales, product mix and relative levels of domestic and foreign sales. Unusual gains or expense items, such as special (gains) charges and settlements, may impact earnings and are separately disclosed. We expect that past performance may not be indicative of future performance due to the competitive nature of our business where the need to adjust prices to gain or hold market share is prevalent.

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

The expenses and capital expenditures described above will require significant levels of liquidity, which we believe can be adequately funded from our currently available cash resources. In 2019 we anticipate capital expenditures in the range of \$6.0 to \$8.0 million.

Over the past several years we have engaged in opportunistic acquisitions, choosing to pay the purchase price in cash, and may do so in the future as favorable situations arise. However, a deep and prolonged period of reduced business spending could adversely impact our cash resources and force us to either forego future acquisition opportunities or to pay the purchase price using debt, which could have an adverse effect on our earnings. We believe that cash flows from operations and our availability under credit facilities will be sufficient to fund our working capital and other cash requirements for the next twelve months.

We maintain our cash and cash equivalents in money market funds or their equivalent that have maturities of less than three months and in non-interest bearing accounts that partially offset banking fees. As of September 30, 2019, we had no investments with maturities of greater than three months. Accordingly, we do not believe that our investments have significant exposure to interest

rate risk. At September 30, 2019 cash balances held in foreign subsidiaries totaled approximately \$3.9 million. These balances are held in local country banks. The Company may repatriate excess foreign cash balances when available and when it is tax efficient. The Company had in excess of \$165 million of liquidity (cash and undrawn line of credit) in the U.S. as of September 30, 2019, which is sufficient to fund its U.S. operations and capital needs, including dividend payments, for the foreseeable future.

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

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

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

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

The translation of the financial statements of our operations outside of the United States is impacted by movements in foreign currency exchange rates. Changes in currency exchange rates as measured against the U.S. dollar may positively or negatively affect income statement, balance sheet and cash flows as expressed in U.S. dollars. We have limited involvement with derivative financial instruments and do not use them for trading purposes. We may enter into foreign currency options or forward exchange contracts aimed at limiting in part the impact of certain currency fluctuations, but as of September 30, 2019 we had no outstanding option or forward exchange contracts.

Our exposure to market risk for changes in interest rates relates primarily to our variable rate debt. Our variable rate debt consists of short-term borrowings under our credit facilities. As of September 30, 2019, there were no outstanding balances under our variable rate credit facility. A hypothetical change in average interest rates of one percentage point is not expected to have a material effect on our financial position, results of operations or cash flows.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2019. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

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

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

**Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal controls over financial reporting during the quarterly period ended September 30, 2019 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 from time to time involved in various lawsuits, claims, investigations and proceedings which may include commercial, employment, tax, customs and trade, customer, vendor, personal injury, creditors rights and health and safety law matters, which are handled and defended in the ordinary course of business. In addition, the Company is from time to time subjected to various assertions, claims, proceedings and requests for damages and/or indemnification concerning sales channel practices and intellectual property matters, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells or that are incorporated in the Company's e-commerce sales channels as well as trademark/copyright infringement claims. The Company is also audited by (or has initiated voluntary disclosure agreements with) various U.S. Federal and state authorities, as well as Canadian authorities, concerning potential income tax, sales tax and/or "unclaimed property" liabilities. These matters are in various stages of investigation, negotiation and/or litigation. The Company was audited by an entity representing 28 states seeking recovery of "unclaimed property" and has received separate demands from 20 states requesting payments of their claimed amounts. The Company is complying with the unclaimed property audit, is providing requested information and is corresponding with the states regarding possible further discussions. The Company intends to vigorously defend these matters and believes it has strong defenses. In September 2017 the Company and certain subsidiaries comprising its former NATG "Tiger" consumer electronics business were sued in United States District Court, Northern District of California by a software publisher alleging that the NATG subsidiaries violated certain contractual sales channel restrictions resulting in claims of breach of contract and trademark/copyright infringement. Although Systemax Inc. has been dismissed from the case, the Company is continuing to assess the remaining claims against and the defenses available to the remaining subsidiary defendants and related possible insurance coverage; trial is scheduled to begin in December 2019. The Company cannot predict the outcome of this matter and believes the potential damages, if any, cannot be estimated at this time.

Although the Company does not expect, based on currently available information, that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial position or results of operations, the ultimate outcome is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. The Company regularly assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable and estimable. In this regard, the Company establishes accrual estimates for its various lawsuits, claims, investigations and proceedings when it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and the loss can be reasonably estimated. At September 30, 2019 the Company has established accruals for certain of its various lawsuits, claims, investigations and proceedings based upon estimates of the most likely outcome in a range of loss or the minimum amounts in a range of loss if no amount within a range is a more likely estimate. The Company does not believe that at September 30, 2019 any reasonably possible losses in excess of the amounts accrued would be material to the financial statements.

**Item 6. Exhibits**

<a href="#">31.1</a>	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.2</a>	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.1</a>	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
<a href="#">32.2</a>	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



**SIGNATURES**

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

SYSTEMAX INC.

Date: November 1, 2019

By: /s/ Thomas Clark

Thomas Clark

Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Barry Litwin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Systemax Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 1, 2019

/s/ Barry Litwin  
Barry Litwin, Chief Executive Officer

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**CERTIFICATION UNDER SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Thomas Clark, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Systemax Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 1, 2019

/s/ Thomas Clark

Thomas Clark, Chief Financial Officer

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**CERTIFICATION PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

The undersigned, the Chief Executive Officer of Systemax Inc., hereby certifies that Systemax Inc.'s Form 10-Q for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), and that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Systemax Inc.

Dated: November 1, 2019

/s/ Barry Litwin

Barry Litwin, Chief Executive Officer

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**CERTIFICATION PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

The undersigned, the Chief Financial Officer of Systemax Inc., hereby certifies that Systemax Inc.'s Form 10-Q for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)), and that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Systemax Inc.

Dated: November 1, 2019

/s/ Thomas Clark

Thomas Clark, Chief Financial Officer

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