SYSTEMAX INC
Form 10-Q/A
November 09, 2004

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

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended June 30, 2004

or

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

For the transition period from ____________ to _____________

COMMISSION FILE NUMBER 1-13792

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

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

11 Harbor Park Drive
Port Washington, New York 11050
(Address of registrant's principal executive offices)
(516) 608-7000
(Registrant's telephone number, including area code)

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.

[X] Yes [ ] No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [ ] No [X]

The number of shares outstanding of the registrant's Common Stock as of August 9, 2004 was 34,400,080.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Our independent registered public accounting firm, Deloitte & Touche LLP, has completed its review of the Company's interim financial statements for the period ending June 30, 2004 and has issued its report thereon dated October 26, 2004. A copy of the review report is filed as an exhibit to this Form 10-Q/A.

Systemax Inc.
Condensed Consolidated Balance Sheets
(In Thousands, except share data)

	June 30, 2004 (Unaudited)	December 31 2003
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$56,358	$38,702
Accounts receivable, net	156,560	152,435
Inventories	126,230	133,905
Prepaid expenses and other current assets	25,601	26,849
Deferred income tax assets	10,367	10,132
Total current assets	375,116	362,023
PROPERTY, PLANT AND EQUIPMENT, net	65,209	68,647
DEFERRED INCOME TAXES AND OTHER ASSETS	11,791	14,982
TOTAL ASSETS	$452,116	$445,652
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Short-term borrowings, including current portions of long-term debt	$23,709	$20,814
Accounts payable	142,220	141,106
Accrued expenses and other current liabilities	50,743	51,037
Total current liabilities	216,672	212,957
LONG-TERM DEBT	17,590	18,353
OTHER LIABILITIES	1,732	1,768
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $.01 per share, authorized 25 million shares, issued none		
Common stock, par value $.01 per share, authorized 150 million shares, issued 38,231,990 shares; outstanding 34,391,296 (2004) and 34,288,068 shares (2003)	382	382
Additional paid-in capital	175,294	175,343
Accumulated other comprehensive income, net	1,460	2,157
Retained earnings	84,105	81,022
	261,241	258,904
Less: common stock in treasury at cost - 3,840,694 (2004) and 3,943,922 (2003) shares	45,119	46,330
Total shareholders' equity	216,122	212,574
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$452,116	$445,652

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,		Three Months E June 30,
	2004	2003	2004
Net sales	$916,726	$815,259	$430,990
Cost of sales	774,088	679,256	363,172
Gross profit	142,638	136,003	67,818
Selling, general & administrative expenses	129,676	125,483	64,101
Restructuring and other charges	5,015	112	973
Goodwill impairment		2,560	
Income (loss) from operations	7,947	7,848	2,744
Interest and other expense, net	1,073	533	426
Income (loss) before income taxes	6,874	7,315	2,318
Provision for income taxes	3,791	4,144	1,647
Net income (loss)	$3,083	$3,171	$671
Net income (loss) per common share:			
Basic	$.09	$.09	$.02
Diluted	$.09	$.09	$.02
Weighted average common and common equivalent shares:			
Basic	34,338	34,106	34,371
Diluted	35,227	34,312	35,224

See notes to condensed consolidated financial statements.

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

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock, At Cost
Balances, January 1, 2004	34,288	$382	$175,343	$81,022	$2,157	$(46,330)
Exercise of stock options	103		(849)			1,211
Change in cumulative translation adjustment, net					(697)	
Compensation expense						

related to stock option plans			800			
Net income				3,083		
Total comprehensive income						
Balances, June 30, 2004	34,391	$382	$175,294	$84,105	$1,460	$(45,119)

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30, 2004	2
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	$3,083	$3,
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for deferred income taxes	2,434	1,
Depreciation and amortization	5,857	6,
Provision for returns and doubtful accounts	1,634	1,
Loss on dispositions and abandonment	525	
Compensation expense related to stock option plans	800	
Goodwill impairment		2,
Changes in operating assets and liabilities:		
Accounts receivable	(7,147)	9,
Inventories	7,185	(5,
Prepaid expenses and other current assets	1,518	9,
Accounts payable, accrued expenses and other current liabilities	1,641	(24,
Net cash provided by operating activities	17,530	4,
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Investments in property, plant and equipment	(2,894)	(4,
Proceeds from disposals of property, plant and equipment	131	
Purchase of minority interest		(2,
Net cash used in investing activities	(2,763)	(6,
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Proceeds (repayments) of borrowings from banks	2,910	(7,
Repayments of long-term debt and capital lease obligations	(878)	(
Exercise of stock options	362	
Net cash provided by (used in) financing activities	2,394	(7,
EFFECTS OF EXCHANGE RATES ON CASH	495	(
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,656	(10,
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	38,702	62,
CASH AND CASH EQUIVALENTS - END OF PERIOD	$56,358	$52,

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See notes to condensed consolidated financial statements.

Systemax Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

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1. Description of Business

Systemax Inc. (the Company or Systemax) is a direct marketer of brand name and private label products, including personal desktop computers (PCs), notebook computers, computer related products and industrial products in North America and Europe. Systemax markets these products through an integrated system of distinctively branded, full-color direct mail catalogs, proprietary e-commerce Internet sites and personalized relationship marketing.

2. Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and all Variable Interest Entities (VIEs) of which the Company is deemed to be the primary beneficiary (see Note 8). All significant intercompany accounts and transactions have been eliminated in consolidation.

Net income per common share - basic was calculated based upon the weighted average number of common shares outstanding during the respective periods presented. Net income per common share diluted was calculated based upon the weighted average number of common shares outstanding and included the equivalent shares for dilutive options outstanding during the respective periods. The dilutive effect of outstanding options issued by the Company are 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. Stock options for the following number of shares in the period noted were excluded from the computation of diluted earnings per share due to their antidilutive effect.

Six Months Ended June 30,		Three Months Ended June 30,	
2004	2003	2003	2004
626,000	1,277,000	588,000	693,000

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial position of the Company as of June 30, 2004 and the results of operations for the three and six month periods ended June 30, 2004 and 2003, cash flows for the six months ended June 30, 2004 and 2003 and changes in shareholders equity for the six months ended June 30, 2004. The December 31, 2003 Condensed Consolidated Balance Sheet has been derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003.

These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements as of December 31, 2003 and for the year then ended included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2003. The results for the six months ended June 30, 2004 are not necessarily indicative of the results for an entire year.

3. Stock-based Compensation

The Company has three stock-based compensation plans, two of which are for employees, consultants and advisors and the third of which is for non-employee Directors. The Company has elected to follow the accounting provisions of Accounting Principles Board Opinion 25 for stock-based compensation and to provide the pro forma disclosures required under Statement of Financial Accounting Standards (SFAS) 148, Accounting for Stock-Based Compensation Transition and Disclosure. Accordingly, the Company does not recognize compensation expense for stock option grants made at an exercise price equal to or in excess of the market value of the underlying stock on the date of grant. The following table illustrates the effect on net income (loss) per share had compensation costs of the plans been determined under a fair value alternative method as stated in SFAS 123 (in thousands, except per share data):

	Six Months Ended June 30,		Three Month June 30
	2004	2003	2004
Net income (loss) - as reported	$3,083	$3,171	$671
Stock-based employee compensation expense determined under fair value based method, net of related tax effects	214	259	208
Pro forma net income (loss)	$2,869	$2,912	$463
Net income (loss) per common share:			
Basic:			
Net income (loss) - as reported	$.09	$.09	$.02
Net income (loss) - pro forma	$.08	$.09	$.01
Diluted:			
Net income (loss) - as reported	$.09	$.09	$.02
Net income (loss) - pro forma	$.08	$.08	$.01

The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003
Expected dividend yield	0%	0%
Risk-free interest rate	5.0%	5.0%
Expected volatility	55.0%	68.0%
Expected life in years	2.29	2.35

4. Comprehensive Income

Comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments, net of tax and is included in the Condensed Consolidated Statement of Shareholders Equity. For the six month periods ended June 30, comprehensive income was $2,386,000 in 2004 and $5,637,000 in 2003 net of tax effects on foreign currency translation adjustments of $387,000 in 2004 and $(1,961,000) in 2003. For the three month periods ended June 30, comprehensive income (loss) was $231,000 in 2004 and $(136,000) in 2003, net of tax effects on foreign currency translation adjustments of $227,000 in 2004 and $(1,162,000) in 2003.

5. Credit Facilities

The Company maintains a $70 million secured revolving credit agreement with a group of financial institutions which provides for borrowings in the United States. The borrowings are secured by all of the domestic accounts receivable and inventories of the Company, general intangibles and the Company s shares of stock in its domestic subsidiaries. The revolving credit agreement contains certain financial and other covenants, including restrictions on capital expenditures and payments of dividends. The Company was in compliance with all of the covenants as of June 30, 2004. The credit facility expires and outstanding borrowings thereunder are due on March 31, 2005. As of June 30, 2004, availability under the agreement was $58.7 million. There were outstanding letters of credit of $7.6 million and there were no outstanding advances.

Under the Company s £15 million ($27.1 million at the June 30, 2004 exchange rate) United Kingdom credit facility, which is available to its United Kingdom subsidiaries, at June 30, 2004 there were £9.1 million ($16.4 million) of borrowings outstanding with interest payable at a rate of 5.87%. The facility does not have a termination date, but may be canceled by either party with six months notice. Borrowings under the facility are secured by certain assets of the Company s United Kingdom subsidiaries.

Under the Company s 5 million ($6.1 million at the June 30, 2004 exchange rate) Netherlands credit facility, there were 4.5 million ($5.5 million) of borrowings outstanding at June 30, 2004, with interest payable at a rate of 5.0%. Borrowings under the facility are secured by the subsidiary s accounts receivable and are subject to a borrowing base limitation of 85% of the eligible accounts. The facility expires in November 2005.

6. Accrued Restructuring Costs

The Company periodically assesses its operations to ensure that they are efficient, aligned with market conditions and responsive to customer needs. During the six months ended June 30, 2004 and the years ended December 31, 2003 and 2002, management approved and implemented restructuring actions which included workforce reductions and facility consolidations.

2004 United States Streamlining Plan

In the first quarter of 2004, the Company implemented a plan to streamline the back office and warehousing operations in its United States computer businesses. The Company recorded $3.7 million of costs related to this plan, including $3.2 million for severance and benefits for approximately 200 terminated employees and $483,00 of non-cash costs for impairment of the carrying value of fixed assets.

The following table summarizes the components of the restructuring charges, the cash payments, non-cash activities, and the remaining accrual as of June 30, 2004 (in thousands):

	Severance and Personnel Costs	Asset Write-downs	Other Exit Costs	Total
Charged to expense in 2004	$3,153	$483	$60	$3,696
Amounts utilized	(1,933)	(483)	-	(2,416)
Accrued at June 30, 2004	$ 1,220	-	$60	$1,280

2003 United States Warehouse Consolidation Plan

In the fourth quarter of 2003, the Company implemented a plan to consolidate the warehousing facilities in its United States computer supplies business. The table below displays the activity and liability balance of the reserve for this initiative (in thousands):

	Severance and Personnel Costs	Asset Write-downs	Other Exit Costs	Total
Accrued at December 31, 2003	$ 63	$233	$417	$713
Amounts utilized	(63)	(82)	(261)	(406)
Accrued at June 30, 2004	-	$151	$156	$307

2002 United Kingdom Consolidation Plan

In 2002 the Company implemented a restructuring plan to consolidate the activities of three United Kingdom locations into a new facility constructed for the Company. In the fourth quarter of 2003, the Company recorded additional costs related to this plan. The table below displays the activity and liability balance of the reserve for this initiative (in thousands):

	Asset Write-downs	Other Exit Costs	Total
Accrued at December 31, 2003	$630	$1,682	$2,312
Amounts utilized	(630)	(951)	(1,581)
Accrued at June 30, 2004	-	$731	$731

7. Segment Information

The Company is engaged in a single reportable segment, the marketing and sales of various business products. Financial information relating to the Company s operations by geographic area was as follows (in thousands):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004	2003	2004	2003
Net Sales (in thousands):				
North America	$570,983	$500,332	$275,077	$240,501
Europe	345,743	314,927	155,913	148,297
Consolidated	$916,726	$815,259	$430,990	$388,798

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

8. Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 46

(Revised) ("FIN 46-R") to address certain FIN 46 implementation issues. This interpretation clarifies the application of Accounting Research Bulletin 51, Consolidated Financial Statements , for companies that have interests in entities that are VIEs (as defined in Note 2) as defined under FIN 46. According to this interpretation, if a company has an interest in a VIE and is at risk for a majority of the VIE's expected losses or receives a majority of the VIE's expected gains it shall consolidate the VIE. FIN 46-R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. For entities acquired or created before February 1, 2003, this interpretation is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those VIE's that are considered to be special purpose entities, for which the effective date is no later than the end of the first interim or annual reporting period ending after December 15, 2003. For all entities that were acquired subsequent to January 31, 2003, this interpretation is effective as of the first interim or annual period ending after December 31, 2003. The Company has adopted FIN 46-R and began consolidating a 50%-owned joint venture in the first quarter of 2004. This consolidation did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

PART II - OTHER INFORMATION

Item 5. Other Information

The Company announced that it is cooperating in an investigation by the United States Attorney s Office for the Southern District of Florida of one or more government employees and certain former employees of the Company of possible misuse of certain previously terminated rebate programs offered by a subsidiary of the Company. The Government has informed the Company that it is not a subject of the investigation at this time. The Audit Committee engaged independent counsel and investigators to conduct a review of the aforementioned terminated rebate programs and certain other similar programs offered by the Company. The results of the review were reported to the Audit Committee, Company management and the Company's registered public accountants.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

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

99.1 Report from Deloitte & Touche LLP dated October 26, 2004 regarding its review of the Company's condensed consolidated financial statements included in the Form 10-Q for the quarter ended June 30, 2004

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 9, 2004

By /s/ RICHARD LEEDS
Richard Leeds
Chairman and Chief Executive Officer

By /s/ STEVEN GOLDSCHEIN
Steven Goldschein
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

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