Section 1: 10-K (10-K)

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2017
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	**11-3262067**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11 Harbor Park Drive
Port Washington, New York 11050
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(516) 608-7000**

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $ .01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best knowledge of the registrant, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a 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 (Check one):

Large Accelerated Filer ☐	Accelerated Filer ☒
Non-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 Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2017, which is the last business day of the registrant's most recently completed second fiscal quarter, was approximately $213,512,446. For purposes of this computation, all executive officers and directors of the Registrant and all parties to the Stockholders Agreement dated as of June 15, 1995 have been deemed to be affiliates. Such determination should not be deemed to be an admission that such persons are, in fact, affiliates of the Registrant.

The number of shares outstanding of the registrant's common stock as of March 7, 2018 was 37,170,542 shares.

Documents incorporated by reference: Portions of the Proxy Statement of Systemax Inc. relating to the 2018 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

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PART I

Unless otherwise indicated, all references herein to Systemax Inc. (sometimes referred to as "Systemax," the "Company," or "we") include its subsidiaries.

Forward Looking Statements

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

Forward looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified based on current expectations. Consequently, future events and results could differ materially from those set forth in, contemplated by, or underlying the forward looking statements contained in this report. Statements in this report, particularly in "Item 1. Business," "Item 1A. Risk Factors," "Item 3. Legal Proceedings," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and the Notes to Consolidated Financial Statements describe certain factors, among others, that could contribute to or cause such differences.

Other factors that may affect our future results of operations and financial condition include, but are not limited to, unanticipated developments in any one or more of the following areas, as well as other factors which may be detailed from time to time in our Securities and Exchange Commission filings:

- risks involved with e-commerce, including possible loss of business and customer dissatisfaction if outages or other computer-related problems should preclude customer access to our products and services
- 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 would 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 information, vendor, employee or customer information, or due to employee error, resulting in disruption to our operations, litigation and/or loss of reputation
- general economic conditions will continue to impact our business
- technological change has had and can continue to have a material effect on our product mix 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 interpretations do not require us to do so
- our international operations are subject to risks such as fluctuations in currency rates, foreign regulatory requirements and political uncertainty
- managing various inventory risks, such as being unable to profitably resell excess or obsolete inventory and/or the loss of product return rights and price protection from our vendors
- meeting credit card industry compliance standards in order to maintain our ability to accept credit cards
- timely availability of existing and new products
- risks associated with delivery of merchandise to customers by utilizing common carrier delivery services
- borrowing costs or availability, including our ability to maintain satisfactory credit agreements and to renew credit facilities
- pending or threatened litigation and investigations
- the availability of key personnel
- the continuation of key vendor relationships and the availability of credit insurance to key vendors

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.

Item 1. Business.

General

Systemax Inc., through its operating subsidiaries, is primarily a direct marketer of brand name and private label products. The Company was incorporated in Delaware in 1995. Certain predecessor businesses which now constitute part of the Company have been in business since 1949. Our headquarters office is located at 11 Harbor Park Drive, Port Washington, New York.

Recent developments

The Company currently operates and is internally managed in two reportable segments - Industrial Products Group ("IPG") and Europe Technology Products ("ETG"), the Company's France operations. Smaller business operations and corporate functions are aggregated and reported as the additional segment - Corporate and Other ("Corporate"). In 2016, the Company sold certain assets of its Misco Germany business, which had been reported as part of its ETG segment, and its rebate processing business, which had been reported as part of its Corporate segment, and sold certain assets and liabilities of its NATG business in December 2015. The Company's continuing operations consist of its IPG and ETG segments.

As disclosed in our Form 8-K dated March 31, 2017, on March 24, 2017, certain wholly owned subsidiaries of the Company executed a definitive securities purchase agreement (the "Purchase Agreement") with certain special purpose companies formed by Hilco Capital Limited ("Hilco" and together with its management team partners, "Purchaser"). Pursuant to the Purchase Agreement, Purchaser acquired all of the Company's interests in Systemax Europe SARL, which includes its subsidiaries, Systemax Business Services K.F.T., Misco UK Limited, Systemax Italy S.R.L., Misco Iberia Computer Supplies S.L., Misco AB, Global Directmail B.V. and Misco Solutions B.V. (collectively, the "SARL Businesses"). The SARL Businesses were reported within the Company's European Technology Products Group ("ETG") segment. The transaction closed immediately upon execution of the Purchase Agreement.

The Company retained its France technology value added reseller business, which is conducted through its subsidiary, Inmac Wstore S.A.S., which was not part of the sale transaction.

The SARL Businesses were sold on a cash-free, debt-free basis; proceeds were nominal. As part of the transaction, the Company retained a 5% residual equity position in the Purchaser's acquiring entity, HUK 77 Limited, which is being accounted for on the cost method, to which no value was ascribed, a $3.3 million note receivable ($2.2 million balance at December 31, 2017 which was paid in full in January 2018) and provided limited transition services to Purchaser through December 19, 2017 under a transition services agreement. The note receivable is included in accounts receivable, net in the Consolidated Balance Sheet at December 31, 2017. In October 2017, Misco UK Ltd. ("Misco UK"), one of the companies included in the sold SARL Businesses, was entered into administration insolvency proceedings in the UK. The Company's rights under the Purchase Agreement and the note receivable relate to the Purchaser and other affiliated entities which are not subject to such proceedings. The Company does not anticipate any material adverse effect on the Company due to the insolvency of Misco UK.

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

Current Operations

Industrial Products

IPG sells a wide array of maintenance, repair and operational ("MRO") products, as well as other industrial and general business supplies, which are marketed in North America. Many of these products are manufactured by other companies. Some products are manufactured for us to our own design and marketed under the trademarks: *Global™, GlobalIndustrial.com™, Nexel™ Relius™, Relius Solutions™,Paramount™ and Interion™*. Industrial products accounted for 63%, 61% and 56% of our net sales from continuing operations in 2017, 2016 and 2015, respectively.

Europe Technology Products Group

ETG sells information and communications technology ("ICT") products. These products are marketed primarily in France and to a much lesser extent Belgium. Substantially all of these products are manufactured by other companies. ETG accounted for approximately 37%, 37% and 32% (excluding sales of the sold Germany operations for 2016 and 2015) of our net sales from continuing operations in 2017, 2016 and 2015, respectively.

Technology Products – NATG

NATG sold ICT and CE products. These products were marketed in North America. Substantially all of these products were manufactured by other companies; however, the Company did offer a selection of products that were manufactured for our own design and marketed on a private label basis. NATG accounted for 0% of our net sales from continuing operations in 2017 and 2016 and 8% in 2015.

See Note 2 and Note 10 to the consolidated financial statements included in Item 15 of this Form 10-K for additional financial information about our business as well as information about our geographic operations.

Discontinued Operations

As discussed above, the SARL Businesses were sold in March 2017 and the NATG B2B and Ecommerce business and the three remaining retail stores in operation at the time of the sale in 2015 are presented in discontinued operations in the accompanying financial statements. Total net sales for the discontinued operations were $117.0 million, $521.6 million and $1.7 billion in 2017, 2016 and 2015, respectively.

Operating History and Restructuring of NATG Operations

In March 2015, the Company announced a restructuring of its NATG business. The NATG segment sold products categorized as Information and Communications Technology (“ICT”) and Consumer Electronics (“CE”) products. These products included computers, computer supplies and consumer electronics which were marketed in North America. The Company followed the guidance under Accounting Standards Update (“ASU”) 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The sale of the NATG business in December 2015 had a major impact on the Company and therefore met the strategic shift criteria. The NATG components in operation at the time of the sale were the B2B and Ecommerce businesses and three remaining retail stores. Accordingly, these components and the results of operations have been adjusted in the accompanying financial statements to reflect their presentation in discontinued operations.

Products

We offer over a million brand name and private label products. We endeavor to expand and keep current the breadth of our product offerings in order to fulfill the increasingly wide range of product needs of our customers.

MRO and other industrial related products offered by our IPG segment include storage and shelving, material handling, janitorial and maintenance, furniture and office, HVAC/R and fans, workbench and shop desks, safety and security, outdoor and grounds maintenance, tools and instruments, office and school supplies, plumbing and pumps, packaging and supplies, electrical and lighting, food service and appliances, raw materials and building supplies, motors and power transmission, pneumatics and hydraulics, medical and laboratory equipment, metalworking and cutting tools, vehicle maintenance, and fasteners and hardware.

ICT products offered by our ETG segment include: servers-storage and backup, desktop computers, laptops, tablets, monitors, mobile devices; computer parts and memory; computer components and accessories; networking and security; software; electronics and commercial and home networking. CE products include TV and video; audio; cameras and surveillance; GPS; cell phones; video games; home and electronics accessories.

Sales and Marketing

We market our products primarily to B2B customers, which include for-profit businesses, educational organizations and government entities. We have developed numerous proprietary customer and prospect databases. We have established a multi-faceted direct marketing system to business customers, consisting primarily of our relationship marketers, catalog mailings and proprietary internet websites, the combination of which is intended to maximize sales.

Relationship Marketers

Our relationship marketers focus their efforts on our business customers by establishing a personal relationship between such customers and a Systemax account manager. The goal of the relationship marketing sales force is to increase the purchasing productivity of current customers and to actively solicit newly targeted prospects to become customers. With access to the records we maintain, our relationship marketers are prompted with product suggestions to expand customer order values. In certain countries, we also have the ability to provide such customers with electronic data interchange ("EDI") ordering and customized billing services, customer savings reports and stocking of specialty items specifically requested by these customers. Our relationship marketers' efforts are supported by e-mail campaigns and periodic catalog mailings, both of which are designed to generate inbound telephone sales, and visits to our interactive websites, which allow customers to purchase products directly over the Internet. We believe that the integration of our multiple marketing methods enables us to more thoroughly penetrate our business, educational and government customer base. We believe increased internet exposure leads to more internet-related sales and also generates more inbound telephone sales; just as we believe email campaigns, and to a lesser extent catalog mailings which feature our websites results in greater internet-related sales.

E-commerce

We currently operate multiple e-commerce sites, including:

North America	Europe
www.globalindustrial.com	www.inmac-wstore.com
www.globalindustrial.ca	www.misco.fr
www.nexelwire.com	
www.chdistgov.com	
www.industrialsupplies.com	

We are continually upgrading the capabilities and performance of these websites in our significant markets. Our internet sites feature over a million MRO and ICT products. Our customers have around-the-clock, online access to purchase products and we have the ability to create targeted promotions for our customers' interests.

In addition to our own e-commerce websites, we have partnering agreements with several of the largest internet shopping and search engine providers who feature our products on their websites or provide "click-throughs" from their sites directly to ours. These arrangements allow us to expand our customer base at an economical cost.

Catalogs

As IPG and France have increased their focus on online and e-commerce advertising, marketing and sales activities, they have decreased their use of hard copy catalogs over the last several years, and currently distribute fewer regular and specialty catalogs than in prior periods.

Customer Service, Order Fulfillment and Support

We generally receive orders through the Internet, by telephone, by EDI, through online chat, and to a small extent via fax. We generally provide toll-free telephone number access for our customers in countries where it is customary. Certain domestic call centers are linked to provide telephone backup in the event of a disruption in phone service.

Certain of our products are carried in stock, and orders for such products are fulfilled on a timely basis directly from our North American and France distribution centers, typically within one day of the order. Orders are generally shipped by third-party delivery services. We maintain relationships with thousands of distributors and product vendors in North America and Europe that also deliver products directly to our customers.

We maintain a database of commonly asked questions for our technical support representatives, enabling them to respond quickly to similar questions. We conduct regular on-site training seminars for our sales representatives to help ensure that they are well trained and informed regarding our latest product offerings.

Suppliers

We purchase substantially all of our products and components directly from both large and small manufacturers as well as large wholesale distributors. Two vendors accounted for 10% or more of our purchases in continuing operations in 2017: one vendor accounted for 16.0% and another vendor accounted for 12.0%. In 2016, two vendors accounted for 10% or more of our purchases: each vendor accounted for 13.6% of our purchases and in 2015, one vendor accounted for 11.2% and another vendor accounted for 11.1% of our purchases. The loss of these vendors, or any other key vendors, could have a material adverse effect on us. Most private label products are manufactured by third parties to our specifications.

Competition and Other Market Factors

Industrial Products

The market for the sale of industrial products in North America is highly fragmented and is characterized by multiple distribution channels such as small dealerships, direct mail distribution, internet-based resellers, large warehouse stores and retail outlets. We face competition from large diversified MRO distributors such as Grainger Inc., MSC Industrial Direct Inc., Fastenal Inc., and other large retailers, including Amazon. We also face competition from manufacturers' own sales representatives, who sell industrial equipment directly to customers, and from regional or local distributors. Many purchasers begin sourcing products via search engine or mobile application on desktops, laptops, or mobile devices. In the industrial products market, customer purchasing decisions are primarily based on price, product selection, product availability, level of service and convenience. We believe that direct marketing via sales representatives, the internet and catalogs are effective and convenient distribution methods to reach mid-sized facilities that place many small orders and require a wide selection of products. In addition, because the industrial products market is highly fragmented and generally less brand oriented, we believe it is well suited to private label products.

Technology Products

The market for selling technology product is highly competitive, with many U.S., European and Asian companies vying for market share. We face competition from large value added resellers such as Econocom, Computacenter, Insight and other large retailers. There are few barriers to entry, with these products being sold through multiple channels of distribution, including direct marketers, computer resellers, mass merchants, over the internet, local and national retail computer stores, and by computer and office supply superstores.

Timely introduction of new products or product features and services are critical elements to remaining competitive. Other competitive factors include product performance, quality and reliability, technical support and customer service, marketing and distribution and price. Some of our competitors have stronger brand-recognition, broader product lines and greater financial, marketing, manufacturing and technological resources than us.

Conditions in the ETG market for technology products remain highly competitive and subject to large bid and tender awards, resulting in our frequent discounting of product sales price as well as offering free or highly discounted freight. These actions have and may continue to adversely affect our revenues and profits. Additionally, we rely in part upon the introduction of new technologies and products by other manufacturers in order to sustain long-term sales growth and profitability. There is no assurance that the rapid rate of such technological advances and product development will continue.

Employees

As of December 31, 2017, we employed a total of approximately 1,900 employees, of whom 1,400 were in North America and 500 were in Europe and Asia.

Seasonality

Seasonality does have some effect on the Company's continuing IPG and ETG businesses. Within IPG, certain product lines are highly seasonal in nature, including HVAC and outdoor furniture. As these are two material lines of business within IPG, sales and margin in the second and third quarters tend to be higher than those in the first and fourth quarters. Within ETG, customers, vendors, and employees tend to take extended holidays in late summer. As such, buying behaviors and accompanying margin rates tend to be lower in the third quarter.

Environmental Matters

Under various national, state and local environmental laws and regulations in North America, Europe and Asia, a current or previous owner or operator (including the lessee) of real property may become liable for the costs of removal or remediation of hazardous substances at such real property. Such laws and regulations often impose liability without regard to fault. We lease most of our facilities. In connection with such leases, we could be held liable for the costs of removal or remedial actions with respect to hazardous substances. Although we have not been notified of, and are not otherwise aware of, any material real property environmental liability, claim or non-compliance, there can be no assurance that we will not be required to incur remediation or other costs in connection with real property environmental matters in the future.

Financial Information About Foreign and Domestic Operations

We currently sell substantially all of our products through established sales channels to our customers in North America (primarily the United States and Canada) and France. Approximately 40.0%, 40.8%, and 45.6% of our net sales from continuing operations during 2017, 2016 and 2015, respectively were made by subsidiaries located outside of the United States. For information pertaining to our international operations, see Note 10, "Segment and Related Information," to the consolidated financial statements included in Item 15 of this Form 10-K. The following sets forth selected information with respect to our continuing operations net sales and operating income, in those two geographic markets (in millions):

	North America	Europe and Asia	Total
2017			
Net sales	$ 791.8	$ 473.6	$ 1,265.4
Operating income	$ 46.8	$ 24.5	$ 71.3
Identifiable assets	$ 362.4	$ 189.0	$ 551.4
2016			
Net sales	$ 719.2	$ 451.1	$ 1,170.3
Operating income	$ 13.4	$ 14.3	$ 27.7
Identifiable assets	$ 290.5	$ 275.6	$ 566.1
2015			
Net sales	$ 801.8	$ 441.7	$ 1,243.5
Operating income (loss)	$ (16.5)	$ 13.0	$ (3.5)
Identifiable assets	$ 470.3	$ 239.8	$ 710.1

See Item 7, "Management's Discussions and Analysis of Financial Condition and Results of Operations", for further information with respect to our operations.

Available Information

We maintain an internet website at www.systemax.com. We file reports with the Securities and Exchange Commission ("SEC") and make available free of charge on or through this website our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, including all amendments to those reports. These are available as soon as is reasonably practicable after they are filed with the SEC. All reports mentioned above are also available from the SEC's website (www.sec.gov). The information on our website is not part of this or any other report we file with, or furnish to, the SEC.

Our Board of Directors has adopted the following corporate governance documents with respect to the Company (the "Corporate Governance Documents"):

- Corporate Ethics Policy for officers, directors and employees
- Charter for the Audit Committee of the Board of Directors
- Charter for the Compensation Committee of the Board of Directors
- Charter for the Nominating/Corporate Governance Committee of the Board of Directors
- Corporate Governance Guidelines and Principles

In accordance with the listing standards of the New York Stock Exchange, each of the Corporate Governance Documents is available on our Company website (www.systemax.com).

Item 1A. Risk Factors.

There are a number of factors and variables described below that may affect our future results of operations and financial condition. Other factors of which we are currently not aware or that we currently deem immaterial may also affect our results of operations and financial position.

Risks Related to the Economy and Our Industries

- *General economic conditions, such as decreased consumer confidence and spending could result in our failure to achieve our historical sales growth rates and profit levels.*

  Both we and our customers are subject to global political, economic and market conditions, including trade and tariff uncertainties, inflation, interest rates, energy costs, the impact of natural disasters, military action and the threat of terrorism. Our consolidated results of operations are directly affected by economic conditions in North America and Europe. We may experience a decline in sales as a result of poor economic conditions and the lack of visibility relating to future orders, (as well as due to senior management turnover, loss of key employees, disruption due to internal technology platform transitions or inefficient or delayed implementation of strategic initiatives). Our results of operations depend upon, among other things, our ability to maintain and increase sales volumes with existing customers, our ability to limit price reductions and maintain our margins, our ability to attract new customers and the financial condition of our customers. A decline in the economy that adversely affects our customers, causing them to limit or defer their spending or that hampers their ability to pay for products would likely adversely affect our sales, prices and profitability as well. We cannot predict with any certainty whether we will be able to maintain or improve upon historical sales volumes with existing customers, or whether we will be able to attract new customers.

  In response to economic and market conditions, from time to time we have undertaken initiatives to reduce our cost structure where appropriate. These initiatives, as well as any future workforce and facilities reductions, may not be sufficient to meet current and future changes in economic and market conditions and allow us to continue to achieve the growth rates and re-attain the levels of profitability we experienced prior to the recent market downturns. In addition, costs actually incurred in connection with our restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings.

- *The markets for our products and services are extremely competitive and if we are unable to successfully respond to our competitors' strategies our sales and gross margins will be adversely affected.*

  We may not be able to compete effectively with current or future competitors. The markets for our products and services are intensely competitive and subject to constant technological change. Competitive factors include price, availability, service and support and a market with relatively low barriers to entry. Many competitors procure and ship the products we sell and many competitors are selling these products as a commodity at the lowest prices they can and often involving reduced or free freight; further they do not provide any post sale services or support. At the same time, many of our competitors couple the sale of products with various value added services and business solutions in an effort to enhance sales and margins and mitigate the pressure of being only a commodities distributor. Accordingly, we must compete with both low priced/no service offered competitors, as well as higher priced/value added services competitors, and must do so on a selective, customer and product focused basis. We believe the services and support we offer for certain of our products are critical value added services and a competitive differentiator for the Company in the markets and for the products where we choose to offer such service. We believe the services and support we offer enable us to build relationships with our customers that result in repeat purchases, customer loyalty and market penetration. In some of our markets, our services and solutions offerings are in an early form and we will need to continue to invest in and enhance our offerings. If at any time our ability to service and support our customers is curtailed or we do not invest effectively in developing these services, there is a risk that we may suffer a loss of reputation, and customers, which could have a material adverse impact on our sales and profits.

  Our e-commerce business faces pressure from competing with large, expanding e-commerce retailers. Many of our competitors are larger companies with greater financial, marketing, services and product development resources than ours. The market for the sale of industrial products in North America is highly fragmented and is characterized by multiple distribution channels such as small dealerships, direct mail distribution, internet-based resellers, large warehouse stores and retail outlets. We face competition from large diversified MRO distributors such as Grainger Inc., MSC Industrial Direct Inc., Fastenal Inc., and other large retailers, including e-commerce retailers such as Amazon. We also face competition from manufacturers' own sales representatives, who sell industrial equipment directly to customers, and from regional or local distributors. In addition, new competitors may enter our markets. This may place us at a disadvantage in responding to competitors' pricing strategies, technological advances and other initiatives, resulting in our inability to increase our revenues or maintain our gross margins in the future.

In most cases our products compete directly with those offered by other manufacturers and distributors. If any of our competitors were to develop products or services that are more cost-effective or technically superior, demand for our product offerings could decrease.

Our gross margins are also dependent on the mix of products we sell, decisions to drop ship rather than stock products in our distribution centers, decisions to offer private label alternatives to branded offerings, price changes by manufacturers, and pricing actions by competitors, and we could be adversely affected by a continuation of our customers' shift to lower-priced products.

- *Sales tax laws may be interpreted in a manner that could result in ecommerce and direct mail retailers to being held to have been required to collect sales taxes in states where we believe the then current laws did not require us to do so. This could result in us having substantial tax liabilities for past sales.*

Our United States subsidiaries historically collected and remitted sales tax in states in which the subsidiaries have physical presence or in which we believed sufficient nexus existed which obligated us to collect sales tax. During the first quarter of 2018, the Company registered its subsidiaries in the U.S. that generate taxable sales for sales tax collection in all states, except Alaska. States may, from time to time in the future, claim that we had state-related activities constituting physical nexus to have required such collection, or that our sale of goods to customers in their state, or directly to the state and its political subdivisions, created nexus for sales tax purposes. Such efforts by states have increased recently, as states seek to raise revenues without increasing the income tax burden on residents. We relied on United States Supreme Court decisions which hold that, without Congressional authority, a state may not enforce a sales tax collection obligation on a company that has no physical presence in the state and whose only contacts with the state are through the use of interstate commerce such as the mailing of catalogs into the state and the delivery of goods by mail or common carrier. We cannot predict whether the nature or level of contacts we had with a particular state in the past will be deemed enough to have required us to collect sales tax in that state. A successful assertion by one or more states that we should have collected sales tax on the sale of merchandise in such state could result in substantial tax liabilities related to past sales.
See *Legal Proceedings.*

- *Events such as acts of war or terrorism, natural disasters, data security breaches, changes in law, or large losses could adversely affect our insurance coverage and insurance expense, resulting in an adverse effect on our profitability and financial condition.*

We insure for certain property and casualty risks consisting primarily of physical loss to property, business interruptions resulting from property losses, worker's compensation, comprehensive general liability, and auto liability. Insurance coverage is obtained for catastrophic property and casualty exposures as well as those risks required to be insured by law or contract. Although we believe that our insurance coverage is reasonable, significant events such as acts of war and terrorism, economic conditions, data security breaches, judicial decisions, legislation, natural disasters and large losses could materially affect our insurance obligations and future expense.

- *Adverse weather events or natural disasters could negatively affect or disrupt our operations. We may be affected by global climate changes or by legal, regulatory or market responses to such potential change.*

Certain areas in which we operate are susceptible to severe weather events, such as hurricanes, tornadoes, and floods. Our ability to provide efficient distribution of core business products from our or third party distribution centers is critical to our business strategy. Disruptions at distribution centers or shipping ports may affect our ability to both maintain core products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our results of operations. We cannot predict whether or to what extent damage caused by these events will affect our operations or the economies in regions where we operate. These adverse events could result in disruption of our operations, our purchasing or distribution capabilities, interruption of our business that exceeds our insurance coverage, our inability to collect from customers and increased operating costs. Our business or results of operations may be adversely affected by these and other negative effects of these events.

- ***Environmental Matters***

  Under various national, state and local environmental laws and regulations in North America, Europe and Asia, a current or previous owner or operator (including the lessee) of real property may become liable for the costs of removal or remediation of hazardous substance at such real property. Such laws and regulation often impose liability without regard to fault. We lease most of our facilities. In connection with such leases, we could be held liable for the costs of removal or remedial actions with respect to hazardous substances. Although we have not been notified of, and nor otherwise aware of, any material real property environmental liability, claim or non-compliance, there can be no assurance that we will not be required to incur remediation or other costs in connection with real property environmental matters in the future.

Risks Related to Our Company

- *We rely to a great extent on our information and telecommunications systems, and significant system failures or outages, or our failure to properly evaluate, upgrade or replace our systems, or the failure of our security/safety measures to protect our systems and websites, could have an adverse effect on our results of operations.*

  We rely on a variety of information and telecommunications systems including internally developed software, third party purchased software and third party cloud based software in order to manage our business, including our customer, vendor, employee, facilities, finance, management and corporate operations. Our success is dependent in large part on the accuracy and proper use of our information systems, including our telecommunications systems, which are utilized in all aspects of our business. To manage our growth, we need to continually evaluate the effectiveness and adequacy of our existing systems and procedures to ensure they are keeping pace with changes in our business. These systems, whether internally developed, purchased or cloud based may need to be modified, upgraded or replaced from time to time. System modifications, upgrades or replacements involve costs as well as the risk of implementation delays and not operating as intended. We rely on third parties such as telecommunication carriers, internet service providers and our own employees to provide the technology services and expertise on which we depend. There are risks that third parties may incur outages or circumstances where they cannot provide the services we require as intended or that our employees do not have the expertise to remediate system outages or technical problems that may arise. We have experienced some delays and operational problems in implementing new IT systems in the past. We anticipate that we will regularly need to make capital expenditures to upgrade and modify our management information systems, including software and hardware, as we grow and the needs of our business change. We have disaster recovery systems and system backups are routinely done for certain critical systems, but not for every system. The occurrence of a significant system failure, electrical or telecommunications outages or our failure to ensure our IT employees are properly trained and technically proficient, or that our systems are adequate, effective and beneficial to our business, or our failure to expand or successfully implement new systems could have a material adverse effect on our results of operations.

- *Data and security breaches, and other disruptions in our information technology systems, could compromise confidential or private information and expose us to liability, which could cause our business and reputation to suffer.*

  Our operations are dependent upon information technology that encompasses all of our major business functions. We use our information systems to, among other things, monitor our supply chain, make purchasing decisions, manage and replenish inventories, coordinate our sales and marketing activities, fill and ship customer orders on a timely basis and to monitor and record our financial transactions and results of operations. These systems also process, transmit and store sensitive electronic data, including employee personal information, supplier and customer records, allow vendors and customers to register on our portals and websites, as applicable, or otherwise allow third parties to communicate or interact with us. In addition, we depend on IT systems of third parties, to, among other things, market and distribute products, to operate our websites, host and manage our services, store data, and process transactions. We may share information with these third parties that participate in certain aspects of our business, and we certify our major suppliers and any outsourced services through accepted security certification standards. However, there is always a risk that the confidentiality of data held or accessed by them may be compromised.

  In processing our sales orders, we often collect personal information and transmit credit card information of our customers. If there was a security breach resulting in unauthorized access to or use of such information, we could be subject to claims for identity theft, unauthorized purchases and claims alleging misrepresentation of our privacy and data security practices or other related claims. While the Company believes it conforms to appropriate Payment Card Industry ("PCI") security standards, any breach involving the loss of credit card information may lead to PCI related fines in the millions of dollars. In the event of a severe breach, credit card providers may prevent our accepting of credit cards.

We measure our data security effectiveness through industry accepted methods and remediate significant findings. We maintain and routinely test backup systems and disaster recovery, along with external network security penetration testing by an independent third party as part of our business continuity preparedness. We also have processes in place to prevent disruptions resulting from the implementation of new software and systems of the latest technology. We have implemented solutions, processes, and procedures to help mitigate the risk of cyber attacks, such as conducting annual vulnerability testing, and are in the process of engaging consultants to assist us in implementing stronger security measures, identifying remediation initiatives and establishing emergency response plans, but there can be no assurance these efforts will successfully deter future cyber attacks. Our Board of Directors is responsible for oversight of the activities of our IT department (which reports to our Chief Executive Officer), and receives a quarterly presentation from our Chief Information Officer that covers, among other things, data security and cyber liability matters.

Although our IT systems are protected through various network security measures, our facilities and systems, and those of our third-party service providers with which we do business, may nevertheless be vulnerable to security breaches, cyber attacks (any adverse event that threatens the confidentiality, integrity or availability of our information resources) vandalism, power outages, natural disasters, computer system failures, telecommunication or network failures, computer viruses, malware, misplaced or lost data, programming and/or human errors or other similar events. From time to time. we have experienced efforts by unknown persons, including “bots”, to access or breach our information systems, and these efforts can be expected to continue in the future. While we have successfully defended against such efforts in the past, there can be no assurance we will be able to protect sensitive data and/or the integrity of the Company's information systems and to defend against such efforts in the future.

Any security breach involving the misappropriation, loss or other unauthorized disclosure of our confidential information or confidential information of our customers, employees, or suppliers, whether by us or by our third-party service providers, could disrupt our business, expose us to risks of litigation (such as customer or third party claims that their data has been compromised) and liability, result in a loss of assets or cause reputational damage, and otherwise have a material adverse effect on our operations and financial condition. Any substantial disruption of our systems could impair our ability to process orders, maintain proper levels of inventories, manage customer billings and collections, prepare and present accurate financial statements and related information, and otherwise materially adversely affect our ability to manage our business.

We maintain cyber liability risk insurance, but this insurance may not be sufficient to cover all of our losses from any future breaches of our systems, or to cover the cause of the future specific situation/loss at hand. In addition, as privacy and information security laws and standards evolve, we may need to incur significant additional investment in technology and other processes to meet new legal requirements.

- *We have exited our SARL Businesses in 2017 and NATG business in 2015 and could incur costs in excess of our estimated exit expenses.*

The Company has substantially completed most of the NATG wind-down activities, although activities related to collecting remaining accounts receivable, subleasing remaining retail store and warehouse spaces and settling accounts payable and other contingent liabilities continue. The Company expects that additional NATG wind-down costs incurred during 2018 or later will aggregate between $1 and $5 million, which is expected to be presented in discontinued operations.

There can be no assurance the Company will be able to timely exit its existing lease commitments at currently recorded cost levels. Failure to achieve these expectations will result in increased cash exit costs for the Company.

- *We rely on third party suppliers for most of our products and services. The loss or interruption of these relationships could impact our sales volumes, the levels of inventory we must carry, and/or result in sales delays and/or higher inventory costs from new suppliers.*

In France we purchase a substantial portion of our products from major distributors and directly from large manufacturers who may deliver those products directly to our customers (within IPG, many of our suppliers are smaller and more fragmented, but such delivery relationships are still often used). These delivery relationships enable us to make available to our customers a wide selection of products without having to maintain large amounts of inventory. The termination or interruption of our relationships with any of these suppliers could materially adversely affect our business.

We purchase a number of our products from vendors outside of the United States. Difficulties encountered by one or several of these suppliers could halt or disrupt production and delay completion or cause the cancellation of our orders. Delays or interruptions in the transportation network could result in loss or delay of timely receipt of product required to fulfill customer orders. Our ability to find qualified vendors who meet our standards and supply products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced from outside the U.S. Political or financial instability, merchandise quality issues, product safety concerns, trade restrictions, work stoppages, tariffs, foreign currency exchange rates, transportation capacity and costs, inflation, civil unrest, outbreaks of pandemics and other factors relating to foreign trade are beyond our control. These and other issues affecting our vendors could materially adversely affect our revenue and gross profit.

Many product suppliers provide us with co-operative advertising support in exchange for featuring their products in our catalogs and on our internet sites. Certain suppliers provide us with other incentives such as rebates, reimbursements, payment discounts, price protection and other similar arrangements. These incentives are offset against cost of goods sold or selling, general and administrative expenses, as applicable. The level of co-operative advertising support and other incentives received from suppliers has declined and may decline further in the future, increasing our cost of goods sold or selling, general and administrative expenses and have an adverse effect on results of operations and cash flows.

- *Goodwill and intangible assets may become impaired resulting in a charge to earnings.*

The Company has made acquisitions in the past of other businesses and these acquisitions resulted in the recording of significant intangible assets and/or goodwill. We are required to test goodwill and intangible assets annually to determine if the carrying values of these assets are impaired or on a more frequent basis if indicators of impairment exist. If any of our goodwill or intangible assets are determined to be impaired we may be required to record a significant charge to earnings in the period during which the impairment is discovered. In the fourth quarter of 2016 within the Company’s ETG discontinued operations, an impairment charge related to goodwill of approximately $0.3 million was recorded and within IPG segment, an impairment charge related to goodwill and intangible assets of $0.1 million was recorded. Although the carrying amounts of intangible assets and goodwill are relatively small as of December 31, 2017, to the extent the Company makes acquisitions in the future there could again be material amounts of such assets recorded and subject to future impairment testing.

- *Our substantial international operations are subject to risks such as fluctuations in currency rates (which can adversely impact foreign revenues and profits when translated to US Dollars), foreign regulatory requirements, political uncertainty and the management of our growing international operations.*

We operate internationally and as a result, we are subject to risks associated with doing business globally, such as risks related to the differing legal, political and regulatory requirements and economic conditions of many jurisdictions. Risks inherent to operating internationally include:

- Changes in a country’s economic or political conditions
- Changes in foreign currency exchange rates
- Difficulties with staffing and managing international operations
- Unexpected changes in regulatory requirements
- Changes in transportation and shipping costs
- Enforcement of intellectual property rights
- Tariff and trade uncertainties

The functional currencies of our businesses outside of the U.S. are the local currencies. Changes in exchange rates between these foreign currencies and the U.S. Dollar will affect the recorded levels of our assets, liabilities, net sales, cost of goods sold and operating margins and could result in exchange gains or losses. The primary currencies to which we have exposure are the European Union Euro, Canadian Dollar and the India Rupee. Exchange rates between these currencies and the U.S. Dollar in recent years have fluctuated significantly and may do so in the future. Our operating results and profitability may be affected by any volatility in currency exchange rates and our ability to manage effectively our currency transaction and translation risks. For example, we currently have operations located in countries outside the United States, and non-U.S. sales accounted for approximately 40.0% of our net sales from continuing operations during 2017. To the extent the U.S. dollar strengthens against foreign currencies, our foreign revenues and profits will be reduced when translated into U.S. dollars.

- *We are exposed to various inventory risks, such as being unable to profitably resell excess or obsolete inventory and/or the loss of product return rights and price protection from our vendors; such events could lower our gross margins or result in inventory write-downs that would reduce reported future earnings.*

  Our inventory is subject to risk due to changes in market demand for particular products. If we fail to manage our inventory of older products we may have excess or obsolete inventory. We may have limited rights to return purchases to certain suppliers and we may not be able to obtain price protection on these items. The elimination of purchase return privileges and lack of availability of price protection could lower our gross margin or result in inventory write-downs.

  We also take advantage of attractive product pricing by making opportunistic bulk inventory purchases; any resulting excess and/or obsolete inventory that we are not able to re-sell could have an adverse impact on our results of operations. Any inability to make such bulk inventory purchases may significantly impact our sales and profitability.

- *Our ETG employees are represented by unions or workers' councils or are employed subject to local laws that are less favorable to employers than the laws of the U.S.*

  As of December 31, 2017, we had approximately 500 employees located in Europe and Asia. We have workers' councils representing the employees of our France operations. These France employees are subject to employment laws that provide greater bargaining or other rights to employees than the laws of the U.S. Such employment rights require us to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. For example, the workers' council in France must approve certain changes in conditions of employment, including salaries and benefits and staff changes, and may impede efforts to restructure our workforce. Although we believe that we have a good working relationship with our employees, a strike, work stoppage or slowdown by our employees or significant dispute with our employees could result in a significant disruption of our operations or higher ongoing labor costs.

- *We may be unable to reduce prices in reaction to competitive pressures, or implement cost reductions or new product line expansion to address gross profit and operating margin pressures; failure to mitigate these pressures could adversely affect our operating results and financial condition.*

  The markets in which we participate are highly price competitive and gross profit margins are narrow and variable. The Company's ability to further reduce prices in reaction to competitive pressure is limited. Additionally, gross margins and operating margins are affected by changes in factors such as vendor pricing, vendor rebate and/or price protection programs, product return rights, and product mix. Pricing pressure is prevalent in the markets we serve and we expect this to continue. We may not be able to mitigate these pricing pressures and resultant declines in sales and gross profit margin with cost reductions in other areas or expansion into new product lines. If we are unable to proportionately mitigate these conditions our operating results and financial condition may suffer.

- *Sales to individual customers expose us to credit card fraud, which impacts our operations. If we fail to adequately protect ourselves from credit card fraud, our operations could be adversely impacted.*

  Failure to adequately control fraudulent credit card transactions could increase our expenses. Sales to individual consumers and small businesses, which are more likely to be paid for using a credit card, increases our exposure to fraud. We employ technology solutions to help us detect the fraudulent use of credit card information. However, if we are unable to detect or control credit card fraud, we may suffer losses as a result of orders placed with fraudulent credit card data, which could adversely affect our business.

- *Our business is dependent on certain key personnel.*

  Our business depends largely on the efforts and abilities of certain key senior management. The loss of the services of one or more of such key personnel could have a material adverse effect on our business and financial results.

- *We are subject to litigation risk due to the nature of our business, which may have a material adverse effect on our results of operations and business.*

  From time to time, we are involved in lawsuits or other legal proceedings arising in the ordinary course of our business. These include patent, trademark or other intellectual property matters, employment law matters, states sales tax claims on internet/ecommerce transactions, product liability, commercial disputes, consumer sales practices, or other matters.

In addition, as a public company we could from time to time face claims relating to corporate or securities law matters. The defense and/or outcome of such lawsuits or proceedings could have a material adverse effect on our business. See “Legal Proceedings”.

- *Our profitability can be adversely affected by changes in our income tax exposure due to changes in tax rates or laws, changes in our effective tax rate due to changes in the mix of earnings among different countries, restrictions on utilization of tax benefits and changes in valuation of our deferred tax assets and liabilities.*

Changes in our income tax expense due to changes in the mix of U.S. and non-U.S. revenues and profitability, changes in tax rates or exposure to additional income tax liabilities could affect our profitability. We are subject to income taxes in the United States and various foreign jurisdictions. Our effective tax rate has been in the past and could be in the future adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, restrictions on utilization of tax benefits, changes in the valuation of deferred tax assets and liabilities, changes in tax laws or by material audit assessments. As a result of the reduction in the U.S. corporate income tax rate, the Company revalued its net deferred tax assets in the U.S. at December 31, 2017 and recorded tax expense of approximately $10.3 million. On December 31, 2017 the French Parliament adopted the Finance Law for 2018. Under this law, French corporate income tax rates are reduced from 33.33% to 25% over a five year period. As a result of the scheduled reductions in the French corporate income tax rate, the Company revalued its French net deferred tax assets at December 31, 2017 and recorded tax expense of approximately $0.5 million. At December 31, 2017 the Company has approximately $26.1 million of net deferred tax assets.

The carrying value of our deferred tax assets is dependent on our ability to generate future taxable income in those jurisdictions. In the case of where several years of losses occur in a jurisdiction, there is a risk that the Company would need to reserve its deferred tax assets which would likely result in a material tax expense being recorded in the period that such reserve is established. Similarly, in the case where a reserve against deferred tax assets has previously been established, successive years of profitability would require the reversal of deferred tax asset reserves which would likely result in a material tax benefit in the period that the reserve is deemed to be no longer necessary. In addition, the amount of income taxes we pay is subject to audit in our various jurisdictions and a material assessment by a tax authority could affect our profitability.

The current U.S. Administration has indicated an intent to reform current international trade agreements. A significant objective of the reforms under consideration is to discourage the importation of goods manufactured outside the U.S. and encourage the export of goods manufactured in the U.S., commonly referred to as a border adjustment tax. Within IPG a significant portion of the products we sell are manufactured outside of the U.S., imported to the U.S. and sold in North America. The impact of a border adjustment tax could be material to our tax expense and profitability. The Company may not be able to fully offset any such tax increase through product price increases as increases in product prices in a competitive market would likely decrease demand for the Company’s products. It is not possible to measure the potential impact of the proposed U.S. trade reforms on the Company’s tax expense at this time. However, the implementation of a significant border adjustment or import tax could have a material adverse impact on the Company’s profitability.

- *Changes in accounting standards or practices, as well as new accounting pronouncements or interpretations, may require us to account for and report our financial results in a different manner in the future, which may be less favorable than the manner used historically.*

A change in accounting standards or practices can have a significant effect on our reported results of operations. New accounting pronouncements and interpretations of existing accounting rules and practices have occurred and may occur in the future. Changes to existing rules may adversely affect our reported financial results.

- *Concentration of Ownership and Control Limits Stockholders Ability to Influence Corporate Actions*

Richard Leeds, Robert Leeds, and Bruce Leeds (each are brothers and directors and executive officers of the Company), together with trusts for the benefit of certain members of their respective families and other entities controlled by them, control approximately 68.0% of the voting power of our outstanding common stock. Due to such holdings, the Leeds brothers together with these trusts and entities are able to determine the outcome of virtually all matters submitted to stockholders for approval, including the election of directors, the appointment of management, amendment of our articles of incorporation, significant corporate transactions (such as a merger or other sale of our company or our assets), the payments of dividends on our common stock and the entering into of extraordinary transactions. Further, as a "controlled company" under NYSE rules, the Company has elected to opt-out of certain New York Stock Exchange listing standards that, among other things, require listed companies to have a majority of independent directors on their board; the Company does however currently have an independent Audit, Compensation Committee and Corporate Governance and Nominating Committees.

- *Risk of Thin Trading and Volatility of our Common Stock Could Impact Stockholder Value*

  Our common stock is currently listed on the NYSE and is thinly traded. Volatility of thinly traded stocks is typically higher than the volatility of more liquid stocks with higher trading volumes. The trading of relatively small quantities of shares of common stock by our stockholders may disproportionately influence the price of those shares in either direction. This may result in volatility in our stock price and could exacerbate the other volatility-inducing factors described below. The market price of our common stock could be subject to significant fluctuations as a result of being thinly traded.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We operate our business from numerous facilities in North America, France and Asia. These facilities include our headquarters location, administrative offices, telephone call centers and distribution centers. Certain facilities handle multiple functions. Most of our facilities are leased; certain are owned by the Company.

America

As of December 31, 2017, IPG has six operational distribution centers in North America which aggregate approximately 2.0 million square feet, all of which are leased by IPG.

Our headquarters, administrative offices and call centers aggregate approximately 184,000 square feet within our IPG segment, all of which are leased.

In NATG there remain five retail stores, three B2B call centers and two warehouses that are either sublet or are being marketed for sublease. These properties aggregate to approximately 0.9 million square feet.

Europe

As of December 31, 2017, we have one distribution center in France which aggregates approximately 56,000 square feet and is leased by ETG. Our administrative offices and call centers aggregate approximately 47,000 square feet.

Asia

As of December 31, 2017, we leased two administrative offices in Asia aggregating approximately 9,000 square feet.

Please refer to Note 11 to the consolidated financial statements for additional information about leased properties, including aggregate rental expense for these properties.

Item 3. 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, customer, personal injury, creditors rights and health and safety law matters, as well as VAT tax disputes in European jurisdictions in which it has done business, and 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) numerous governmental agencies in various countries, including U.S. Federal and state authorities, concerning potential income tax, sales tax and unclaimed property liabilities. These matters are in various stages of investigation, negotiation and/or litigation. The Company is also being audited by an entity representing 21 states seeking recovery of "unclaimed property". The Company is complying with the unclaimed property audit and is providing requested information. The Company intends to vigorously defend these matters and believes it has strong defenses. In September 2017 the Company and certain subsidiaries comprising its former NATG "Tiger" consumer electronics business were sued in United States District Court, Northern District of California by a software publisher alleging that the NATG subsidiaries violated certain contractual sales channel restrictions resulting in claims of breach of contract and trademark/copyright infringement. The matter is at a very early stage and the Company is assessing the claims and its defenses; 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 December 31, 2017 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 December 31, 2017 any reasonably possible losses in excess of the amounts accrued would be material to the financial statements.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Systemax common stock is traded on the NYSE Euronext Exchange under the symbol "SYX." The following table sets forth the high and low closing sales price of our common stock as reported on the New York Stock Exchange for the periods indicated.

	High	Low
2017		
First Quarter	$ 11.35	$ 7.20
Second Quarter	20.44	11.66
Third Quarter	28.25	18.07
Fourth Quarter	34.31	27.12
2016		
First Quarter	$ 9.55	$ 7.46
Second Quarter	9.35	7.89
Third Quarter	9.06	7.65
Fourth Quarter	9.29	7.36

On December 29, 2017, the last reported sale price of our common stock on the New York Stock Exchange was $33.27 per share. As of December 31, 2017, we had 167 shareholders of record.

On December 26, 2017, the Company's Board of Directors declared a special cash dividend of $1.50 per share payable on January 12, 2018 to shareholders of record on January 5, 2018.

On October 31, 2017, the Company's Board of Directors declared a cash dividend of $0.10 per share payable on November 20, 2017 to shareholders of record on November 13, 2017.

On August 1, 2017, the Company's Board of Directors declared a cash dividend of $0.10 per share payable on August 21, 2017 to shareholders of record on August 14, 2017.

On May 4, 2017, the Company's Board of Directors declared a cash dividend of $0.10 per share payable on May 22, 2017 to shareholders of record on May 15, 2017.

On February 28, 2017, the Company's Board of Directors declared a cash dividend of $0.05 per share payable on March 20, 2017 to shareholders of record on March 10, 2017.

Depending in part upon profitability, the strength of our balance sheet, our cash position and the need to retain cash for the development and expansion of our business, we anticipate continuing a regular quarterly dividend in the future, subject to availability limitations under our credit facilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition, Liquidity and Capital Resources" and Note 5 of "Notes to Consolidated Financial Statements".

Information regarding securities authorized for issuance under equity compensation plans and a performance graph relating to the Company's common stock is set forth in the Company's Proxy Statement relating to the 2018 Annual Meeting of Shareholders and is incorporated by reference herein.

Item 6. Selected Financial Data.

The following selected financial information is qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere in this report. The selected statement of operations data, excluding discontinued operations, for fiscal years 2017, 2016 and 2015 and the selected balance sheet data as of December 2017 and 2016 are derived from the audited consolidated financial statements which are included elsewhere in this report. The selected balance sheet data as of December 2015, 2014 and 2013 and the selected statement of operations data for fiscal years 2014 and 2013 are derived from the audited consolidated financial statements of the Company which are not included in this report. The results of operations shown here have been adjusted to reflect the presentation of the ETG and NATG discontinued operations (See Note 1 of the Notes to Consolidated Financial Statements).

	Years Ended December 31, (In millions, except per share data)				
	2017	**2016**	**2015**	**2014**	**2013**
Statement of Operations Data:					
Net sales	$ 1,265.4	$ 1,170.3	$ 1,243.5	$ 1,364.7	$ 1,291.0
Gross profit	$ 351.4	$ 307.9	$ 310.5	$ 315.7	$ 291.2
Operating income (loss) from continuing operations	$ 71.3	$ 27.7	$ (3.5)	$ 6.8	$ (6.6)
Net income (loss) from continuing operations	$ 76.1	$ 16.9	$ (24.0)	$ (8.9)	$ (36.6)
Per Share Amounts:					
Net income (loss) from continuing operations — diluted	$ 2.02	$ 0.45	$ (0.65)	$ (0.24)	$ (0.99)
Weighted average common shares — diluted	37.6	37.2	37.1	37.1	37.0
Cash dividends declared per common share	$ 1.85	$ 0.10	$ —	$ —	$ —
Balance Sheet Data:					
Working capital	$ 178.3	$ 186.2	$ 214.2	$ 310.6	$ 345.8
Total assets	$ 551.4	$ 566.1	$ 710.1	$ 896.9	$ 942.2
Shareholders' equity	$ 211.8	$ 214.4	$ 253.9	$ 359.6	$ 406.2

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Systemax Inc., through its subsidiaries, is primarily a direct marketer of brand name and private label products. The Company currently operates and is internally managed in two reportable segments - Industrial Products Group ("IPG") and Europe Technology Group ("ETG"). Smaller business operations and corporate functions are aggregated and reported as an additional segment – Corporate and Other ("Corporate"). As previously disclosed in the second quarter of 2017 and for all periods presented, the Company modified the presentation of certain costs associated with operating our distribution centers as well as with our Purchasing and Product Development personnel. Historically these costs had been included as a component of cost of sales and are now included within Selling, Distribution and Administrative expenses ("SD&A").

As disclosed in our Form 8-K dated March 31, 2017, on March 24, 2017, certain wholly owned subsidiaries of the Company executed a definitive securities purchase agreement (the "Purchase Agreement") with certain special purpose companies formed by Hilco Capital Limited ("Hilco" and together with its management team partners, "Purchaser"). Pursuant to the Purchase Agreement, Purchaser acquired all of the Company's interests in Systemax Europe SARL, which includes its subsidiaries, Systemax Business Services K.F.T., Misco UK Limited, Systemax Italy S.R.L., Misco Iberia Computer Supplies S.L., Misco AB, Global Directmail B.V. and Misco Solutions B.V. (collectively, the "SARL Businesses"). The SARL Businesses were reported within the Company's EETG segment. The transaction closed immediately upon execution of the Purchase Agreement.

The Company retained its France technology value added reseller business, which is conducted through its subsidiary, Inmac Wstore S.A.S., which was not part of the sale transaction.

The SARL Businesses were sold on a cash-free, debt-free basis; proceeds were nominal. As part of the transaction, the Company retained a 5% residual equity position in the Purchaser's acquiring entity, HUK 77 Limited, which is being accounted for on the cost method, to which no value was ascribed, a $3.3 million note receivable ($2.2 million balance at December 31, 2017 which was paid in full in January 2018) and provided limited transition services to Purchaser through December 19, 2017 under a transition services agreement. The note receivable is included in accounts receivable, net in the Consolidated Balance Sheet at December 31, 2017. In October 2017, Misco UK Ltd. ("Misco UK"), one of the companies included in the sold SARL Businesses, was entered into administration insolvency proceedings in the UK. The Company's rights under the Purchase Agreement and the note receivable relate to the Purchaser and other affiliated entities which are not subject to such proceedings. The Company does not anticipate any material adverse effect on the Company due to the insolvency of Misco UK.

The sale of the SARL business met the “strategic shift with major impact” criteria as defined under Accounting Standards Update ("ASU") 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which requires disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under ASU 2014-08 in order for a disposal to qualify for discontinued operations presentation in the financial statements, the disposal must be a "strategic shift" with a major impact for the reporting entity. If an entity meets this threshold, and other requirements, only the components that were in operation at the time of disposal are presented as discontinued operations. Therefore, the current year and prior year results of the SARL Businesses are included in discontinued operations in the accompanying consolidated financial statements. For the year ended December 31, 2017, 2016 and 2015, net sales of the SARL Businesses included in discontinued operations totaled $117.0 million, $509.8 million, $611.2 million, respectively, and net loss included in discontinued operations totaled $28.2 million, $24.8 million and $24.3 million, respectively. For a discussion of the accounting for the sale of the SARL Businesses, see Note 1 and Note 2 to the consolidated financial statements included in Item 15 of this Form 10-K.

As disclosed in our Form 10-K for the fiscal year 2015, the Company sold its North American Technology Products Group ("NATG") business and began the wind-down of its remaining NATG operations. The sale of the NATG business in December 2015 had a major impact on the Company and therefore met the strategic shift criteria as defined under ASU 2014-08. The NATG components in operation at the time of the sale were the B2B and Ecommerce businesses and three remaining retail stores. Accordingly, these components and the results of operations have been adjusted in the accompanying financial statements to reflect their presentation in discontinued operations. The wind-down was substantially completed in the second quarter of 2016 and the Company continues with collecting accounts receivable, settling accounts payable, marketing remained leased facilities, as well as, settling remaining lease obligations and other contingencies. These wind-down activities will continue in 2018. For the year ended December 31, 2017, 2016 and 2015, net sales of the NATG business included in discontinued operations totaled $0.0 million, $11.8 million and $1,053.4 million, respectively, and net loss included in discontinued operations totaled $7.5 million, $24.7 million and $51.5 million, respectively. For a discussion of the accounting and wind-down of the NATG business, see Note 1 and Note 2 to the consolidated financial statements included in Item 15 of this Form 10-K.

On September 2, 2016 the Company sold certain assets of its Misco Germany operations which had been reported as part of its ETG segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-08, prior and current year results of the German operations are presented within continuing operations in the consolidated financial statements. For the year ended December 31, 2016, net sales of Misco Germany included in continuing operations were $33.9 million and the net loss, including approximately $1.7 million of intercompany charges, was $6.4 million.

On December 31, 2016, the Company sold its rebate processing business which had been reported as part of its Corporate and Other (“Corporate”) segment. As this disposition was also not a strategic shift with a major impact as defined under ASU 2014-08, prior and current year results of the rebate processing business are presented within continuing operations in the consolidated financial statements. For the year ended December 31, 2016, net sales of the rebate processing business included in continuing operations were $3.7 million and the net loss was $2.3 million, including intercompany charges of $0.1 million. The Company recorded a gain on this sale in 2016 of approximately $3.9 million.

In order to provide more meaningful information to investors which reflect the full exit of NATG, Misco Germany, sale of the rebate processing business along with the associated gain on the sale, the Company is also presenting its results on a non-GAAP basis in the “Non-GAAP” operating results table. This non-GAAP presentation reflects the entire NATG segment, Misco Germany operation and rebate processing business as a discontinued operation for all periods presented as well as including adjustments for non-recurring items, intangible amortization and equity compensation in recurring operations.

Management’s discussion and analysis that follows will include IPG, ETG, Corporate and other, NATG continuing operations and discontinued operations.

Industrial Products

IPG sells a wide array of maintenance, repair and operational ("MRO") products, as well as other industrial and general business supplies, which are marketed in North America. Most of these products are manufactured by other companies; however, the Company does offer a selection of products that are manufactured for our own design and marketed under the trademarks *Global*™, *GlobalIndustrial.com*™ and *Nexel*™ *Relius*™, *Paramount*™ *and Interion*™. Industrial products accounted for 63%, 61% and 56% of our net sales from continuing operations in 2017, 2016 and 2015, respectively.

On January 30, 2015, IPG completed its acquisition of the Plant Equipment Group, a business-to-business direct marketer of MRO products, from TAKKT America for $25.9 million in cash; post-closing working capital adjustments were de minimis. This acquisition expanded the Company's regional footprint and its market share.

Europe Technology Products Group

ETG sells information and communication technology ("ICT") products and consumer electronics ("CE"). These products are marketed primarily in France and to a much lesser extent Belgium. Substantially all of these products are manufactured by other companies. On March 24, 2017 the Company sold its SARL Businesses and its continuing ETG operations now only include those in France. Prior year comparatives will include France and the divested German operations which was sold in September 2016. France accounted for approximately 37%, 37% and 32% (excluding sales of the sold Germany operations in 2016 and 2015) of our net sales from continuing operations in 2017, 2016 and 2015, respectively.

In September 2016 the Company sold certain assets of its Misco Germany operations which had been reported as part of its ETG segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-08, prior and current year results of the German operations are presented within continuing operations in the consolidated financial statements. For the year ended December 31, 2016, net sales of Misco Germany included in continuing operations were $33.9 million and the net loss, including approximately $1.7 million of intercompany charges, was $6.4 million.

In both of these above mentioned product groups, we offer our customers a broad selection of products, prompt order fulfillment and extensive customer service.

Corporate and other

At December 31, 2016, the Company sold all of its issued and outstanding membership interests of its rebate processing business which had been reported as part of its Corporate and Other ("Corporate") segment. As this disposition was also not a strategic shift with a major impact as defined under ASU 2014-08, prior and current year results of the rebate processing business are presented within continuing operations in the consolidated financial statements. For the year ended December 31, 2016, net sales of the rebate processing business included in continuing operations were $3.7 million and the net loss was $2.3 million. The Company recorded a gain on this sale of approximately $3.9 million.

North American Technology Products Group

As discussed above, the Company sold certain B2B assets of NATG in December 2015 and substantially completed wind-down activities in 2016. The NATG segment sold primarily ICT and CE products. These products were marketed in the United States, Canada and Puerto Rico. Most of these products were manufactured by other companies; however the Company did offer a selection of products that were manufactured to our own designs and marketed on a private label basis. NATG sales included in continuing operations in 2017 and 2016 were 0% and 8% in 2015 of our net sales.

Discontinued Operations

As discussed above, for 2017 and prior year periods the Company's discontinued operations include the results of the SARL businesses sold in March 2017 and the NATG business sold in December 2015. Total net sales for the discontinued operations were $117.0 million, $521.6 million and $1.7 billion for the years ended 2017, 2016 and 2015, respectively. See Note 2 and 10 to the consolidated financial statements included in Item 15 of this Form 10-K for additional financial information about our business segments as well as information about our geographic operations.

Operating Conditions

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

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

In the discussion of our results of operations we refer to business to business channel sales and period to period constant currency comparisons. Sales in IPG, ETG and Corporate and other are considered to be B2B sales. In the NATG business, we had considered business to business ("B2B") channel sales to be sales made direct to other businesses and government /public sector entities through managed business relationships, outbound call centers and extranets. Consumer ("B2C") channel sales were sales from retail stores, consumer websites, inbound call centers and television shopping channels. Constant currency refers to the adjustment of the results of our foreign operations to exclude the effects of period to period fluctuations in currency exchange rates.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in Item 15 of this Form 10-K. Certain accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty, and as a result, actual results could differ materially from those estimates. These judgments are based on historical experience, observation of trends in the industry, information provided by customers and information available from other outside sources, as appropriate. Management believes that full consideration has been given to all relevant circumstances that we may be subject to, and the 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 years presented. We identify below a number of policies that entail significant judgments or estimates, the assumptions and or judgments used to determine those estimates and the potential effects on reported financial results if actual results differ materially from these estimates.

Accounting policy	Assumptions and uncertainties	Quantification and analysis of effect on actual results if estimates differ materially
Revenue Recognition. We recognize product sales when persuasive evidence of an order arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Generally, these criteria are met at the time of receipt by customers when title and risk of loss both are transferred, except in our IPG segment where title and risk pass at time of shipment. Sales are presented net of returns and allowances, rebates and sales incentives. Reserves for estimated returns and allowances are provided when sales are recorded, based on historical experience and current trends.	Our revenue recognition policy contains assumptions and judgments made by management related to the timing and amounts of future sales returns. Sales returns are estimated based upon historical experience and current known trends.	We have not made any material changes to our sales return reserve policy in the past four years and we do not anticipate making any material changes to this policy in the future. However if our estimates are materially different than our actual experience we could have a material gain or loss adjustment.

Allowance for Doubtful Accounts Receivable. We record an allowance for doubtful accounts to reflect our estimate of the collectability of our trade accounts receivable. While bad debt allowances have been within expectations and the provisions established, there can be no guarantee that we will continue to experience the same allowance rate we have in the past.	Our allowance for doubtful accounts policy contains assumptions and judgments made by management related to collectability of aged accounts receivable and chargebacks from credit card sales. We evaluate the collectability of accounts receivable based on a combination of factors, including an analysis of the age of customer accounts and our historical experience with accounts receivable write-offs. The analysis also includes the financial condition of a specific customer or industry, and general economic conditions. In circumstances where we are aware of customer credit card charge-backs or a specific customer's inability to meet its financial obligations, a specific reserve for bad debts applicable to amounts due to reduce the net recognized receivable to the amount management reasonably believes will be collected is recorded. In those situations with ongoing discussions, the amount of bad debt recognized is based on the status of the discussions.	We have not made any material changes to our allowance for doubtful accounts receivable reserve policy in the past four years and we do not anticipate making any material changes to this policy in the future. However if our estimates are materially different than our actual experience we could have a material gain or loss adjustment. A change of 10% in our allowance for doubtful accounts reserve at December 31, 2017 would impact net income by approximately $0.2 million.
Inventory valuation. We value our inventories at the lower of cost or net realizable value; cost being determined on the first-in, first-out method except in France where an average cost is used. Excess and obsolete or unmarketable merchandise are written down based on historical experience, assumptions about future product demand and market conditions. If market conditions are less favorable than projected or if technological developments result in accelerated obsolescence, additional write-downs may be required. While obsolescence and resultant markdowns have been within expectations, there can be no guarantee that we will continue to experience the same level of markdowns we have in the past.	Our inventory reserve policy contains assumptions and judgments made by management related to inventory aging, obsolescence, credits that we may obtain for returned merchandise, shrink and consumer demand.	We have not made any material changes to our inventory reserve policy in the past four years and we do not anticipate making any material changes to this policy in the future. However if our estimates are materially different than our actual experience we could have a material loss adjustment. A change of 10% in our inventory reserves at December 31, 2017 would impact net income by approximately $0.2 million.

Goodwill and Intangible Assets. We apply the provisions of relevant accounting guidance in our valuation of goodwill, trademarks, domain names, client lists and other intangible assets. Relevant accounting guidance requires that goodwill and indefinite lived intangibles be reviewed at least annually for impairment or more frequently if indicators of impairment exist. The amount of an impairment loss would be recognized as the excess of the asset's carrying value over its fair value.	Our impairment testing involves judgments and uncertainties, quantitative and qualitative, related to the use of discounted cash flow models and forecasts of future results, both of which involve significant judgment and may not be reliable. Significant management judgment is necessary to evaluate the operating environment and economic conditions that exist to develop a forecast for a reporting unit. Assumptions related to the discounted cash flow models we use include the inputs used to determine the Company's weighted average cost of capital including a market risk premium, the beta of a reporting unit, reporting unit specific risk premiums and terminal growth values. Critical assumptions related to the forecast inputs used in our discounted cash flow models include projected sales growth, gross margin percentages, new business opportunities, working capital requirements, capital expenditures and growth in selling, general and administrative expense. We also use our Company's market capitalization and comparable company market data to validate our reporting unit valuations.	We have not made any material changes to our goodwill policy in the past four years and we do not anticipate making any material changes to this policy in the future. In the fourth quarter of 2016, the Company conducted an evaluation of certain intangible assets of its Mexico operation in its IPG segment and concluded that they were impaired and a charge of $0.1 million, pre-tax was recorded. In our discontinued ETG segment, impairment charges of $0.3 million were recorded in the fourth quarter of 2016, related to impairment of intangible assets in the United Kingdom. We have approximately, in aggregate, $14.5 million in goodwill and intangible assets at December 31, 2017. We do not believe it is reasonably likely that the estimates or assumptions used to determine whether any of our remaining goodwill or intangible assets are impaired will change materially in the future. However if the inputs used in our discounted cash flow models or our forecasts are materially different than actual experience we could incur impairment charges that are material.
Long-lived Assets. Management exercises judgment in evaluating our long-lived assets for impairment and in their depreciation and amortization methods and lives including evaluating undiscounted cash flows.	The impairment analysis for long lived assets requires management to make judgments about useful lives and to estimate fair values of long lived assets. It may also require us to estimate future cash flows of related assets using discounted cash flow model. Our estimates of future cash flows involve assumptions concerning future operating performance and economic conditions. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations.	We have not made any material changes to our long lived assets policy in the past four years and we do not anticipate making any material changes to this policy in the future. In the fourth quarter of 2016, the Company, after conducting an evaluation of the long-lived assets in its United Kingdom operations, recorded an impairment charge of $1.7 million within ETG discontinued operations segment. We do not believe it is reasonably likely that the estimates and assumptions used to determine long lived asset impairment will vary materially in the future. However if our estimates are materially different than our actual experience we could have a material gain or loss adjustment. A change of 10% in the carrying value of our long lived assets would impact net income by approximately $1.5 million.

Vendor Accruals. Our contractual agreements with certain suppliers provide us with funding or allowances for costs such as price protection, markdowns and advertising as well as funds or allowances for purchasing volumes.

Generally, allowances received as a reimbursement of identifiable costs are recorded as an expense reduction when the cost is incurred. Sales related allowances are generally determined by our level of purchases of product and are deferred and recorded as a reduction of inventory carrying value and are ultimately included as a reduction of cost of goods when inventory is sold.

Management makes assumptions and exercises judgment in estimating period end funding and allowances earned under our various agreements. Estimates are developed based on the terms of our vendor agreements and using existing expenditures for which funding is available, determining products whose market price would indicate coverage for markdown or price protection is available and estimating the level of our performance under agreements that provide funds or allowances for purchasing volumes. Estimates of funding or allowances for purchasing volume will include projections of annual purchases which are developed using current actual purchase data and historical purchase trends. Accruals in interim periods could be materially different if actual purchase volumes differ from projections.

We have not made any material changes to our vendor accrual policy in the past four years nor do we anticipate making any material changes to this policy in the future.

If actual results are different from the projections used we could have a material gain or loss adjustment.

A change of 10% in our vendor accruals at December 31, 2017 would impact net income by approximately $0.4 million.

Income Taxes. We are subject to taxation from federal, state and foreign jurisdictions and the determination of our tax provision is complex and requires significant management judgment.

We conduct operations in numerous U.S. states and foreign locations. Our effective tax rate depends upon the geographic distribution of our pre-tax income or losses among locations with varying tax rates and rules. As the geographic mix of our pre-tax results among various tax jurisdictions changes, the effective tax rate may vary from period to period. We are also subject to periodic examination from domestic and foreign tax authorities regarding the amount of taxes due. These examinations include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. We establish as needed, and periodically reevaluate, an estimated income tax reserve on our consolidated balance sheet to provide for the possibility of adverse outcomes in income tax proceedings. While management believes that we have identified all reasonably identifiable exposures and whether or not a reserve is appropriate, it is possible that additional exposures exist and/or that exposures may be settled at amounts different than the amounts reserved.

The determination of deferred tax assets and liabilities and any valuation allowances that might be necessary requires management to make significant judgments concerning the ability to realize net deferred tax assets. The realization of our net deferred tax assets is significantly dependent upon the generation of future taxable income. In estimating future taxable income there are judgments and uncertainties related to the development of forecasts of future results that may not be reliable. Significant management judgment is also necessary to evaluate the operating environment and economic conditions that exist to develop a forecast for a reporting unit. Where management has determined that it is more likely than not that some portion or the entire deferred tax asset will not be realized, we have provided a valuation allowance. If the realization of those deferred tax assets in the future is considered more likely than not, an adjustment to the deferred tax assets would increase net income in the period such determination is made.

We have not made any material changes to our income tax policy in the past four years and we do not anticipate making any material changes to this policy in the near future.

We do not believe it is reasonably likely that the estimates or assumptions used to determine our deferred tax assets and liabilities and related valuation allowances will change materially in the future. However if our estimates are materially different than our actual experience we could have a material gain or loss adjustment.

In 2017 the Company recorded approximately $10.8 million in tax expense related to the revaluation of deferred tax assets as a result of tax law changes in the U.S. and France. The Company also recorded approximately $5.2 million in tax expense, also related to tax reform in the U.S., for taxes on undistributed earnings of its foreign subsidiaries. This tax was also offset by the utilization of net operating losses (see Note 8 to the Consolidated Financial Statements.

Special charges. We have recorded reorganization, restructuring and other charges in the past and could in the future commence further reorganization, restructuring and other activities which result in recognition in charges to income.

The recording of reorganization, restructuring and other charges may involve assumptions and judgments about future costs and timing for amounts related to personnel terminations, stay bonuses, lease termination costs, lease sublet revenues, outplacement services, contract termination costs, asset impairments and other exit costs. Management may estimate these costs using existing contractual and other data or may rely on third party expert data.

When we incur a liability related to these actions, we estimate and record all appropriate expenses. We do not believe it is reasonably likely that the estimates or assumptions used to determine our reorganization, restructuring and other charges will change materially in the future. However if our estimates are materially different than our actual experience we could have a material gain or loss adjustment.

The Company recorded special charges of $0.3 million, $3.9 million and $26.9 million in continuing operations related to reorganization, restructuring and asset impairment and other charges for the years ended 2017, 2016 and 2015, respectively.

Recently Adopted and Newly Issued Accounting Pronouncements

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

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard that amends the guidance for the recognition of revenue from contracts with customers to transfer goods and services. The FASB has subsequently issued additional, clarifying standards to address issues arising from implementation of the new revenue recognition standard. The new revenue recognition standard and clarifying standards are effective for interim and annual periods beginning on January 1, 2018. The new standards are required to be adopted using either a full-retrospective or a modified-retrospective approach. The Company will adopt these standards using the modified-retrospective approach beginning on January 1, 2018. The Company has completed its impact assessment and does not anticipate a material impact to total revenues in the consolidated statements of operations, accounting policies, business processes, internal controls or disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of this standard on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which modifies certain accounting aspects for share-based payments to employees including, among other elements, the accounting for income taxes and forfeitures, as well as classifications in the statement of cash flows. The Company adopted this standard effective January 1, 2017 and its adoption did not materially impact the Company's consolidated financial position or results of operations when implemented in the first quarter of 2017. Under this guidance, a company recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than paid-in capital, which is a change required to be applied on a prospective basis in accordance with the new guidance. We adopted the cash flow presentation that requires presentation of excess tax benefits within operating activities on a prospective basis. Accordingly, for the year ended December 31, 2017, we recorded discrete income tax benefits in the consolidated statement of operations of approximately $0.8 million, for excess tax benefits related to equity compensation. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact on our results of operations. The presentation requirements for cash flows related to employee taxes paid for withheld shares is disclosed in our consolidated statement of cash flows and has been applied retrospectively. Cash flows related to employee taxes paid for withheld shares was immaterial for 2016 and 2015.

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

Highlights from 2017

The discussion of our results of operations and financial condition that follows will provide information that will assist in understanding our financial statements and information about how certain accounting principles and estimates affect the consolidated financial statements. This discussion should be read in conjunction with the consolidated financial statements included herein.

- IPG sales increased 10.6% to $791.8 million and operating profit increased 102.9% to $69.6 million. On a constant currency basis, average daily sales increased 11.0%.
- ETG sales increased 5.0% to $473.6 million and operating profit increased 69.0% to $24.5 million. On a constant currency basis, average daily sales increased 3.8%.
- Consolidated operating income grew 157.4% to $71.3 million compared to $27.7 million in the prior year.

GAAP Results of Operations

Key Performance Indicators* (in millions):

	Years Ended December 31,				
	2017	2016	2015	% Change 2017/2016	% Change 2016/2015
Net sales of continuing operations by segment:					
IPG	$ 791.8	$ 715.6	$ 698.6	10.6 %	2.4 %
ETG	473.6	451.1	441.7	5.0 %	2.1 %
Corporate and Other	—	3.6	5.4	(100.0) %	(33.3) %
NATG- continuing operations	—	—	97.8	— %	(100.0) %
Consolidated net sales	$ 1,265.4	$ 1,170.3	$ 1,243.5	8.1 %	(5.9) %
Consolidated gross profit	$ 351.4	$ 307.9	$ 310.5	14.1 %	(0.8) %
Consolidated gross margin	27.8 %	26.3 %	25.0 %	1.5 %	1.3 %
Consolidated SD&A costs**	$ 280.1	$ 280.2	$ 314.0	— %	(10.8) %
*Consolidated SD&A costs** as % of sales*	22.1 %	23.9 %	25.3 %	(1.8) %	(1.4) %
Operating income (loss) from continuing operations by segment:					
IPG	$ 69.6	$ 34.3	$ 43.7	102.9 %	(21.5) %
ETG	24.5	14.5	13.0	69.0 %	11.5 %
Corporate and Other	(22.2)	(18.3)	(22.0)	(21.3) %	16.8 %
NATG – continuing operations	(0.6)	(2.8)	(38.2)	78.6 %	92.7 %
Consolidated operating income (loss)	$ 71.3	$ 27.7	$ (3.5)	157.4 %	891.4 %
Operating margin from continuing operations by segment:*					
IPG	8.8 %	4.8 %	6.3 %	4.0 %	(1.5) %
ETG	5.2 %	3.2 %	2.9 %	2.0 %	0.3 %
Consolidated operating margin from continuing operations	5.6 %	2.4 %	(0.3) %	3.2 %	2.7 %
Effective income tax rate (benefit) from continuing operations	(7.5) %	35.2 %	NM %	—	NM %
Net income (loss) from continuing operations	$ 76.1	$ 16.9	$ (24.0)	350.3 %	170.4 %
Net margin from continuing operations	*6.0 %*	*1.4 %*	*(1.9) %*	*4.6 %*	*3.3 %*
Loss from discontinued operations, net of tax	$ (35.7)	$ (49.5)	$ (75.8)	27.9 %	(34.7) %

*excludes discontinued operations (See Note 3 of Notes to Consolidated Financial Statements).
** includes special charges, net (See Note 3 of Notes to Consolidated Financial Statements).
NM=not meaningful

Non-GAAP Results of Operations

Supplemental Non-GAAP Continuing Operation Business Unit Summary Results-Unaudited

Industrial Products Group

	Year Ended December 31,			% Change	
	2017	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Sales	$ 791.8	$ 715.6	$ 698.6	10.6 %	2.4 %
Average daily sales*	$ 3.1	$ 2.8	2.7	11.1 %	3.6%
Gross profit	$ 273.2	$ 233.3	$ 228.7	17.1 %	2.0 %
Gross margin	34.5%	32.6%	32.7%		
Operating income	$ 70.9	$ 35.2	$ 44.0	101.4 %	(25.0)%
Operating margin	9.0%	4.9%	6.3%		

European Technology Products Group (France)

	Year Ended December 31,			% Change	
	2017	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Sales	$ 473.6	$ 417.2	$ 382.6	13.5 %	9.0 %
Average daily sales**	$ 1.9	$ 1.6	1.5	14.4 %	10.3%
Gross profit	$ 78.2	$ 69.7	$ 62.5	12.2 %	11.5 %
Gross margin	16.5%	16.7%	16.3%		
Operating income	$ 25.1	$ 19.6	$ 16.0	28.1 %	22.5 %
Operating margin	5.3%	4.7%	4.2%		

Corporate & Other

	Year Ended December 31,			% Change	
	2017	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Operating loss	$ (20.9)	$ (18.9)	$ (21.3)	(10.6)%	11.3 %

Consolidated

	Year Ended December 31,			% Change	
	2017	**2016**	**2015**	**2017 vs. 2016**	**2016 vs. 2015**
Sales	$ 1,265.4	$ 1,132.8	$ 1,081.2	11.7 %	4.8 %
Gross profit	$ 351.4	$ 303.0	$ 291.2	16.0 %	4.1 %
Gross margin	27.8%	26.7%	26.9%		
Operating income	$ 75.1	$ 35.9	$ 38.7	109.2 %	(7.2)%
Operating margin	5.9%	3.2%	3.6%		

*Percentages are calculated using sales data in hundreds of thousands. For the year ended December 31, 2017, 2016 and 2015, IPG had 253, 254 and 257 selling days, respectively and France had 251, 253 and 256 selling days, respectively.

**Percentages are calculated using sales data excluding Misco Germany, in hundreds of thousands.

[1] *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 2017. In the GAAP presentation, the retail operations which were discontinued by the Company prior to the transaction, along with allocations of common distribution and back office costs, are presented as part of the Company's continuing operations for all periods; other NATG operations that were sold (as well as the remaining retail operations that existed at the time of the transaction (and were subsequently discontinued by the Company) are presented as discontinued operations for all periods. The non-GAAP results reflect the entire NATG segment as a discontinued operation for all periods presented as well as adjustments for non-recurring items, intangible amortization, equity compensation and a normalized effective tax rate in recurring operations. On September 2, 2016 the Company closed on the sale of certain assets of its Misco Germany operation which has been reported as part of its European Technology Products Group. Prior and current year results of Germany have been eliminated in the non-GAAP presentation. On December 31, 2016 the Company closed on the sale of its Afligo rebate processing business. Prior and current year results of the rebate processing business, along with the associated gain on the sale, have been eliminated in the non-GAAP presentation. On March 24, 2017, the Company closed on the sale of its European Technology Group businesses, other than its operations in France. Prior and current year results of these divested businesses, along with the associated loss on the sale, have been classified as discontinued operations in both the GAAP and non-GAAP presentation. The Company believes that the non-*

GAAP presentation conveys additional more meaningful information to investor as it depicts the operations that are currently generating sales and that will continue to do so in future periods. See accompanying GAAP reconciliation tables.

SYSTEMAX INC.

Reconciliation of Segment and Consolidated GAAP Net Sales from Continuing Operations to Segment and Consolidated Non-GAAP Net Sales from Continuing Operations - Unaudited

(In millions)

	Year Ended December 31,		
	2017	**2016**	**2015**
Industrial Products	$ 791.8	$ 715.6	$ 698.6
Technology Products - Europe	473.6	451.1	441.7
NATG - continuing operations	—	—	97.8
Corporate and Other	—	3.6	5.4
GAAP Net Sales	**1,265.4**	**1,170.3**	**1,243.5**
Non-GAAP adjustments:			
Technology Products - Europe:			
Reverse results of Germany included in GAAP Net Sales	—	(33.9)	(59.1)
Total Non-GAAP Adjustments: Technology Products Europe	—	(33.9)	(59.1)
Technology Products - NA:			
Reverse results of Germany included in GAAP Net Sales	—	—	(97.8)
Total Non-GAAP Adjustments: Technology Products NA	—	—	(97.8)
Corporate and Other:			
Reverse results of Afligo included in GAAP Net Sales	—	(3.6)	(5.4)
Total Non-GAAP Adjustments: Corporate and Other	—	(3.6)	(5.4)
Industrial Products	791.8	715.6	698.6
Technology Products-Europe	473.6	417.2	382.6
NATG - continuing operations	—	—	—
Corporate and Other	—	—	—
Non-GAAP Net Sales	**$ 1,265.4**	**$ 1,132.8**	**$ 1,081.2**

SYSTEMAX INC.

Reconciliation of Segment and Consolidated GAAP Gross Profit from Continuing Operations to Segment and Consolidated Non-GAAP Gross Profit from Continuing Operations - Unaudited

(In millions)

	Year Ended December 31,		
	2017	**2016**	**2015**
Industrial Products	$ 273.2	$ 233.3	$ 228.7
Technology Products - Europe	78.2	73.0	67.4
Technology Products - NA	—	—	10.5
Corporate and Other	—	1.6	3.9
GAAP Gross Profit	**351.4**	**307.9**	**310.5**
Non-GAAP adjustments:			
Technology Products - Europe:			
Reverse results of Germany included in GAAP Gross Profit	—	(3.3)	(5.0)
Total Non-GAAP Adjustments: Technology Products Europe	—	(3.3)	(5.0)
Technology Products - NA:			
Reverse results of NATG included in GAAP Gross Profit	—	—	(10.5)
Total Non-GAAP Adjustments: Technology Products NA	—	—	(10.5)
Corporate and Other:			
Reverse results of Afligo included in GAAP Gross Profit	—	(1.6)	(3.9)
Total Non-GAAP Adjustments: Corporate and Other	—	(1.6)	(3.9)
Industrial Products	273.2	233.3	228.7
Technology Products- Europe	78.2	69.7	62.4
Technology Products - NA	—	—	—
Corporate and Other	—	—	—
Non-GAAP Gross Profit	**$ 351.4**	**$ 303.0**	**$ 291.1**

SYSTEMAX INC.

Reconciliation of Segment GAAP Operating Income (Loss) from Continuing Operations to Non-GAAP Operating Income (Loss) from Continuing Operations - Unaudited

(In millions)

	Year Ended December 31,		
	2017	**2016**	**2015**
Industrial Products	$ 69.6	$ 34.3	$ 43.7
Technology Products - Europe	24.5	14.5	13.0
Technology Products - NA	(0.6)	(2.8)	(38.2)
Corporate and Other	(22.2)	(18.3)	(22.0)
GAAP operating income (loss)	**71.3**	**27.7**	**(3.5)**
Non-GAAP adjustments:			
Industrial Products:			
Integration costs	—	—	1.0
Intangible asset amortization	1.0	0.5	0.3
Stock-based and other special compensation	0.3	0.4	(1.0)
Total Non-GAAP Adjustments – Industrial Products	1.3	0.9	0.3
Technology Products - Europe:			
Reverse results of Germany operations	0.5	4.7	3.0
Intangible asset amortization	0.1	0.4	—
Total Non-GAAP Adjustments: Technology Products Europe	0.6	5.1	3.0
Technology Products - NA:			
Reverse results of NATG included in GAAP continuing operations	0.6	2.8	38.2
Total Non-GAAP Adjustments: Technology Products NA	0.6	2.8	38.2
Corporate and Other:			
Gain on sale of Afligo	—	(3.9)	—
Reverse results of Afligo included in GAAP continuing operations	—	2.2	0.1
Stock based compensation	1.3	1.1	0.6
Total Non-GAAP Adjustments: Corporate and Other	1.3	(0.6)	0.7
Industrial Products	70.9	35.2	44.0
Technology Products - Europe	25.1	19.6	16.0
Technology Products - NA	—	—	—
Corporate and Other	(20.9)	(18.9)	(21.3)
Non-GAAP operating income	**$ 75.1**	**$ 35.9**	**$ 38.7**

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

NET SALES

SEGMENTS:

The IPG segment net sales benefited in 2017 from continued growth across both its U.S. and Canadian core business categories including material handling, HVAC, and storage solutions. IPG U.S. revenue was up 10.3% for the year while Canada sales were up approximately 18.0% on a constant currency basis. Increased sales included both new customer acquisition as well as increased penetration of existing customer accounts while the US also benefited from a strengthening macro economic environment.

The IPG segment net sales benefited in 2016 from continued growth across its U.S. core business categories including material handling, HVAC and furniture. IPG U.S. revenue was up 3.3% for the year while Canada sales were down approximately 10.3% on a constant currency basis. Increased sales headcount in various customer facing roles as well as increased e-commerce revenue contributed to the increased sales. On a constant currency basis and excluding the January 2015 P.E.G. acquisition, average daily sales grew 2.8%.

The ETG segment, comprising France and the divested German operations, net sales increase in 2017 and 2016 is primarily attributable to growth across our product categories and customer segments, led by growth in our large key accounts in our France operations. France was awarded and fulfilled many large tenders for Government and Education in both 2017 and 2016. On a constant currency basis, net sales increased 3.0% and average daily sales increased 3.8% in 2017 compared to 2016 and net sales increased 2.6% and average daily sales increased 3.3% in 2016 compared to 2015. Excluding divested Germany operations, on a constant currency basis, net sales increased 11.3% and average daily sales increased 12.2% in 2017 compared to 2016 and net sales increased 9.6% and average daily sales increased 10.3% in 2016 compared to 2015. The Corporate and Other segment net sales decrease in 2017 compared to 2016 is attributable to the divestiture of the rebate processing business in 2016 and 2016 compared to 2015 is attributable to the decrease in the rebate processing business which was impacted by the exit from our NATG operations in 2015.

Sales in NATG continuing operations represent the sales of the retail stores closed during the first half of 2015. NATG discontinued operations net sales totaled $0.0 million, $11.8 million (liquidation sales) and $1.0 billion for 2017, 2016 and 2015, respectively.

ETG discontinued operations net sales totaled $117.0 million, $509.8 million and $611.2 million for 2017, 2016 and 2015, respectively.

GROSS MARGIN

Gross margin is dependent on variables such as product mix including sourcing and category, vendor price protection and other sales incentives, competition, pricing strategy, cooperative advertising funds classified as a reduction to cost of sales, free freight and freight discounting arrangements and other variables, any or all of which may result in fluctuations in gross margin. As previously disclosed in the second quarter of 2017 and for all periods presented, the presentation of expenses associated with the cost of warehouse operations as well as with Purchasing and Product Development personnel are reflected within Selling, Distribution and Administrative expenses, rather than as a component of cost of sales as historically had been presented.

The IPG segment gross margin improved 190 basis points in 2017 compared to prior year reflecting both increased product and freight margins. Product margin improvements were driven by a shift in sourcing mix towards stocked items, which typically have lower relative cost, and away from drop shipped products which typically have a higher relative cost, as well as due to strategic pricing adjustments which allowed for higher selling prices while remaining competitive. Freight margin improvements were primarily associated with a reduction of free or fixed freight offerings as well as due to better distribution network utilization as we completed our warehouse management system conversion project early in the year. In addition, the year over year improvement also consists of a negative inventory adjustment of $1.7 million recognized in the second quarter of 2016 which had been identified when converting the warehouse management systems.

The IPG segment gross margin declined 10 basis points in 2016 compared to 2015 reflecting flat product margins, decreased freight margins and increased warehouse staffing cost due to incremental temporary labor to ensure our customer service levels are maintained during the transition to our new warehouse management and distribution system, which was completed in the first half of 2017.

The ETG segment gross margin improved 30 basis points compared to 2016 and improved 90 basis points comparing 2016 to 2015 reflecting a shift in customer mix and large deals, offset by the category mix. ETG segment gross margin, excluding the Germany operations, decreased 20 basis points compared to 2016 reflecting a product mix more weighted toward client devices that carry lower margins as well as a shift in customer mix. ETG segment gross margin, excluding the Germany operations, increased 40 basis points compared to 2015 primarily the result of changes in the sales mix related to both product and customers in our France business.

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

Consolidated selling, distribution and administrative expenses totaled $279.8 million, $276.3 million and $287.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Within the second quarter of 2017 and for all periods presented, the presentation of expenses associated with the cost of warehouse operations as well as with Purchasing and Product Development personnel were modified to be reflected within Selling, Distribution and Administrative expenses, rather than as a component of cost of sales as had been historically presented before this change was adopted in the second quarter of 2017.

The IPG segment SD&A costs as a percentage of sales decreased in 2017 compared to 2016 as a result of improved leverage across significant cost areas such as marketing, general operating expenses and the cost benefit of a more streamlined employee base. In total IPG segment SD&A as a percentage of sales decreased by 210 basis points compared to 2016. In absolute dollars IPG incurred increased salary and related costs as well as temporary help costs of approximately $3.5 million, increased contract services, rent and related costs of approximately $1.2 million and increased depreciation expense of $0.3 million in 2017 compared to 2016 offset by savings in internet advertising spend of $1.6 million.

The IPG segment SD&A costs as a percentage of sales increased 150 basis points in 2016 compared to 2015. Significant expense increases included approximately $4.6 million of increased salary and related costs of which $0.6 million related to the cost reduction strategies implemented in the second quarter of 2016, investments in the sales force, increased IT costs of approximately $2.9 million and increased net internet advertising spending of approximately $1.9 million as it continues to expand its online product offerings and its e-commerce presence. Included in the IPG segment's SD&A expenses is 12 months of P.E.G. costs compared to 11 months in the prior year.

The ETG segment SD&A costs as a percentage of sales improved 130 basis points for 2017 compared to 2016 as a result of leverage of fixed costs related to revenue and volume growth and the divestiture of the Germany operations in 2016. Of this improvement, 30 basis points was related to a one time contract settlement charge in the second quarter of 2016 of $1.4 million. Other savings of $2.8 million result from the elimination of shared service center charges as a result of the divestiture of the SARL Businesses offset by increased salary and related costs of $2.4 million primarily related to a statutory profit sharing contribution and $0.6 million of increased internet advertising spend. The sale of the SARL Businesses required ETG to replace with in country personnel the functions handled by the shared service center in Hungary that was part of the sale. Excluding the Germany operations, SD&A costs as a percentage of sales improved 90 basis points compared to 2016.

The ETG segment SD&A costs as a percentage of sales increased 40 basis points for 2016 compared to 2015. Significant costs included $1.4 million of one time contract settlement charges previously mentioned, $1.1 million of increased internet and catalog advertising spend and catalog offset by reduced bad debt expense of approximately $0.4 million and rent costs of approximately $0.1 million. Excluding the Germany operations and the one time contract settlement charge previously mentioned, SD&A improved 30 basis points.

The Corporate and other segment SD&A costs increased in 2017 compared to 2016 primarily related to increased incentive compensation costs of approximately $1.4 million offset by the reduction in costs resulting from the sale of the rebate processing business in December 2016.

The Corporate and other segment SD&A costs decreased by approximately $5.8 million in 2016 compared to 2015 primarily attributable to the gain on the sale of the rebate processing business of $3.9 million, lower salary and related costs of approximately $1.9 million, savings within professional fees of approximately $0.9 million offset by increased IT costs of approximately $1.0 million.

NATG continuing operations SD&A expense for 2017 totaled $0.3 million primarily for utilities, telephone and legal fees, $0.6 million for 2016 primarily for utilities, telephone, repairs & maintenance, and $23.1 million for 2015 primarily for payroll costs, credit card fees, rent and utilities. NATG continuing operations SD&A expense is primarily payroll costs, credit card fees, rent and utilities.

ETG and NATG discontinued operations SD&A expense totaled $22.1 million, $96.9 million and $221.0 million for each of 2017, 2016 and 2015, respectively.

SPECIAL CHARGES, NET

In 2017 the Company incurred special charges of $30.9 million, of which $0.3 million is included in continuing operations within the NATG segment and $30.6 million is included in discontinued operations within the ETG and NATG segments.

The Company's ETG segment incurred special charges related to the sale of the SARL Businesses of approximately $23.7 million, which included an $8.2 million loss on the sale of net assets, $14.4 million of cumulative translation adjustments, $1.1 million of legal, professional and other costs, $0.8 million recovery from settlement of an outstanding obligation related to the sale, $0.3 million of severance and other personnel costs and $0.5 million of costs related to a transitional services agreement. Of these charges previously mentioned, $1.4 million required the use of cash.

The Company expects that total additional charges related to the sale of the SARL Businesses will be less than $1.0 million which will be presented in discontinued operations. Additional charges may be incurred in the discontinued SARL Businesses related to disputed statutory tax indemnities given at closing.

The Company's NATG segment incurred special charges for the year ended December 31, 2017 of approximately $7.2 million, approximately $6.5 million related to updating our future lease cash flows expectations related to previously exited retail stores of $0.3 million, which is included in continuing operations, and $6.2 million in discontinued operations as these charges related to the distribution center and the NATG corporate headquarters and $0.7 million related to ongoing restitution proceedings against certain former NATG executives.
The Company incurred special charges for the year ended December 31, 2016 of $15.4 million within ETG and NATG segments, of which $3.9 million is included in continuing operations and $11.5 million is included in discontinued operations.

The Company's ETG segment incurred special charges during 2016 of approximately $3.7 million, of which $1.7 million is included within continuing operations and $2.0 million is included within discontinued operations. The $1.7 million related to the sale of certain assets of its German business, including customer relationships and the employees of its Misco Germany branch. The Germany operations charges incurred included approximately $1.0 million for lease termination costs (includes $0.3 million benefit related to previous rent accruals), $0.6 million for professional fees related to the sale and approximately $0.1 million for write off of inventory and fixed assets. The $2.0 million of special charges, included within discontinued operations, related to impairment charges related to goodwill and long-lived assets in the United Kingdom operations.

The Company's NATG segment incurred special charges in 2016 of approximately $11.7 million, of which $2.2 million is included in continuing operations and $9.5 million is included in discontinued operations. Charges incurred included approximately $10.9 million for lease terminations and other exit costs (includes $3.3 million benefit of previous rent accruals) for the closing of the two remaining retail stores, a distribution center and the NATG corporate headquarters in 2016, approximately $2.0 million of additional lease termination costs (includes $0.1 million benefit of previous rent accruals) of our previously exited retail stores (present value of contractual gross lease payments net of sublease rental income, or settlement amount), $0.6 million for consulting expenses related to the lease terminations and $0.2 million for severance and related expenses.

NATG also incurred approximately $1.3 million of professional costs, related to the ongoing restitution proceedings against certain former NATG executives and professional costs related to the investigation conducted at the request of the US Attorney for the Southern District of Florida. These charges were offset by approximately $1.3 million received as a partial payment related to the investigation, settlement, prosecution, and restitution proceedings related to the former NATG executives, $1.1 million benefit related to the settlement of vendor obligations, $0.5 million received from auction proceeds from the sale of fixed assets and approximately $0.4 million received when the buyer of NATG. exercised its option to acquire the consumer customer lists and related information of the NATG business.

The Company incurred special charges for the year 2015 of approximately $29.5 million within the ETG, NATG and IPG segments, of which $26.9 million is included within continuing operations and $2.6 million is included within discontinued operations. These charges included approximately $25.6 million attributable to the NATG segment for severances and lease termination costs related to the closing of 31 retail stores and a warehouse during 2015. Other charges incurred in 2015 include costs for additional legal and professional fees related to the previously disclosed investigation and settlement with former officers and employees and long-lived asset impairment charges.

IPG recorded special charges of approximately $1.0 million in 2015, within continuing operations, related to severance costs associated with the integration of P.E.G. of $0.4 million and $0.6 million for lease termination costs related to one of their leased facilities.

Special charges incurred in the ETG segment in 2015, within continuing operations, related to impairment charges of $0.3 million related to the long-lived assets in our Germany operations. The impairment charges resulted from negative cash flows in 2015 and a forecast for continued cash use.

Special charges included in ETG and NATG discontinued operations in 2015 totaled approximately $2.6 million. ETG charges included $0.7 million related to the previously disclosed exit of the Chief Executive of the EMEA Technology operations and an impairment charge of $0.4 million related to the long-lived assets in Italy, Spain and Sweden operations. The impairment charge resulted from negative cash flows in 2015 and a forecast for continued cash use in these entities. A favorable severance accrual adjustment of $0.1 million was also recorded in 2015 in ETG. Special charges of $1.6 million was included in NATG discontinued operations.

OPERATING MARGIN

IPG's operating margin increase of 400 basis points in 2017 compared to 2016 was driven by a combination of increased net sales, improved gross margin rate, lowered digital marketing spend, as well as savings from salary reductions realized from certain actions taken in the first quarter of 2017. These improvements and cost reductions were partially offset by increased variable compensation resulting from the improved financial performance of the business.

IPG’s operating margin decrease of 150 basis points in 2016 reflects the increased expenses for the larger Las Vegas distribution center, including temporary help to ensure our service level is maintained during our transition to our new warehouse management and distribution system, increased internet advertising spending to drive traffic, increased salary and related costs due to investments in sales force and customer service staff, partially offset by a reduction of back office headcount, which was completed in the second quarter of 2016, as well as approximately $1.7 million related to an inventory adjustment the Company gained visibility into during the IT system conversion in the second quarter of 2016.

ETG's operating margin increase of 200 basis points compared to 2016 was driven by leverage of ETG's cost structure as revenues grew in 2017 as well as the elimination of Germany operating losses which were $4.7 million for the year 2016 as the result of the sale of that business in September 2016. Excluding the Germany operations, operating margin increased 70 basis points compared to 2016.

Consolidated operating margin was impacted by special charges of $0.3 million, $3.9 million and $26.9 million in 2017, 2016 and 2015, respectively.

INTEREST AND OTHER EXPENSE, NET

Included in interest and other expense (income), net in continuing operations, is interest expense of $0.4 million, $0.7 million and $1.0 million in 2017, 2016 and 2015, respectively. The interest expense is attributable to decreasing balances owed on outstanding capital lease obligations and credit facility charges.

INCOME TAXES

On December 22, 2017, the Tax Cut and Jobs Act ("TCJA") was enacted in the United States. The TCJA significantly changes U.S. corporate tax impacts by, among other things, lowering the corporate tax rate to 21% from 35% effective January 1, 2018, implementing a territorial tax system and imposing a one-time repatriation tax on previously untaxed, accumulated earnings of foreign subsidiaries. As a result of the new tax law, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 118 ("SAB 118"). SAB 118 allows companies to record the tax impacts of the new law as provisional amounts during a measurement period of up to one year from the enactment date of the new law. The Company has recognized a provisional amount for the one-time repatriation tax of approximately $5.2 million and has included this amount in its consolidated financial statements for the year ended December 31, 2017. The Company expects to complete its analysis of the historical earnings and profits of all of its foreign subsidiaries and record any adjustment to the provisional amount within the one year measurement period.

Deferred tax assets and liabilities are measured using enacted tax rates expected to be in place in the year in which they are expected to reverse. As a result of the reduction in the U.S. corporate income tax rate, the Company revalued its net deferred tax assets in the U.S. at December 31, 2017 and recorded tax expense of approximately $10.3 million. On December 31, 2017 the French Parliament adopted the Finance Law for 2018. Under this law, French corporate income tax rates are reduced from 33.33% to 25% over a five year period. As a result of the scheduled reductions in the French corporate income tax rate, the Company revalued its French net deferred tax assets at December 31, 2017 and recorded tax expense of approximately $0.5 million.

The Company recorded net tax benefits from continuing operations for 2017 of $5.3 million and net tax benefits from discontinued operations of $3.7 million. The net benefit from continuing operations was primarily the result of the provisional repatriation tax recorded and the deferred tax remeasurment expenses which were more than offset by the reversal of valuation allowances against the Company's U.S. federal and certain state deferred tax assets and the utilization of net operating losses against pretax income and the repatriation tax.

The Company’s tax (benefit) expense is presented in both continuing and discontinued operations in 2017, 2016 and 2015. Tax benefit included in continuing operations was approximately $5.3 million in 2017 compared to $9.2 million expense in 2016.

Tax expense included in continuing operations was approximately $12.3 million in 2015 driven primarily by tax expense in Canada, Puerto Rico and certain U.S. states in both 2016 and 2015. The decrease in tax expense in 2016 is primarily attributable to lower tax expense in the U.S. and EMEA.

Financial Condition, Liquidity and Capital Resources

Selected liquidity data (in millions):

	December 31,		
	2017	2016	$ Change
Cash	$ 184.5	$ 149.7	$ 34.8
Accounts receivable, net	$ 174.3	$ 148.6	$ 25.7
Inventories	$ 131.5	$ 116.7	$ 14.8
Prepaid expenses and other current assets	$ 3.8	$ 3.9	$ (0.1)
Accounts payable	$ 196.1	$ 181.3	$ 14.8
Dividend payable	$ 55.7	$ —	$ 55.7
Accrued expenses and other current liabilities	$ 64.0	$ 49.2	$ 14.8
Working capital	$ 178.3	$ 186.2	$ (7.9)

Our primary liquidity needs are to support working capital requirements in our business, including the wind-down activities of the NATG and ETG businesses, funding recently declared and any future dividends, funding capital expenditures, continuing investment in upgrading and expanding our technological capabilities and information technology infrastructure, and funding acquisitions. We rely principally upon operating cash flows to meet these needs. We believe that cash flow available from these sources and our availability under credit facilities will be sufficient to fund our working capital and other cash requirements for at least the next twelve months. We believe our current capital structure and cash resources are adequate for our internal growth initiatives. To the extent our growth initiatives expand, including major acquisitions, we would 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 decreased due to declaration of dividends, increases in accounts payable and accrued expenses balances compared to prior year. Accounts receivable days outstanding were at 47.1 in 2017 down from 48.1 in 2016. Inventory turns were 7.4 in 2017 compared to 8.0 in 2016 and accounts payable days outstanding were 71.8 in 2017 compared to 75.4 in 2016. We expect that future accounts receivable, inventory and accounts payable balances will fluctuate with net sales and the mix of our net sales between consumer and business customers.

Net cash provided by operating activities from continuing operations was $57.9 million resulting from changes in our working capital accounts, which used $8.3 million in cash compared to $50.7 million used in 2016, primarily the result of increased accounts receivable and inventory balances and the fluctuation in our accounts payable and accrued expenses balances. Cash generated from net income adjusted by other non-cash items provided $66.2 million compared to $27.1 million provided by these items in 2016, primarily related to the significant change in income from continuing operations and the change in the provision for deferred income taxes which reflects the reversal of certain valuation allowance account balances. Net cash used in operating activities from continuing operations was $23.6 million in 2016 compared to $128.7 million during 2015, resulting from changes in our working capital accounts which used $50.7 million in 2016 compared to $134.0 million provided in 2015, primarily the result of fluctuations in our inventories balances due to the liquidation of inventories at our retail stores in 2015, accounts receivable, accounts payable and accrued expenses balances. Cash generated from net income (loss) adjusted by other non-cash items provided $27.1 million in 2016 compared to $5.32 million used in 2015, primarily the result of increased income from continuing operations, fluctuations in asset impairment charges and non-cash benefit items recorded and changes in gain (loss) on disposition and abandonment. Net cash used in operating activities from discontinued operations was $12.3 million, $33.8 million and $42.2 million for 2017, 2016 and 2015 respectively.

Net cash used in investing activities from continuing operations totaled $2.7 million, $1.9 million and $33.4 million for 2017, 2016 and 2015, respectively. In 2017, investing activities included invested in warehouse pick modules, warehouse racking and mobile sales application software for IPG segment. In 2016 investing activities included information and communication systems hardware and software, leasehold improvements and lift trucks for inventory and warehousing functions for IPG segment. The acquisition of P.E.G. in 2015 used $24.8 million, net of cash acquired of $0.9 million along with $0.9 million of proceeds from the sale of our former PC manufacturing facility. In 2015 other investing activities include leasehold improvements for racking, equipment and build out of our additional warehouse space for IPG segment, new office space for our France operations, expenditures for our inventory and warehousing functions in ETG and IPG and information and communications systems hardware and software, aggregating $10.0 million. Net cash used in investing activities from discontinued operations was $0.1 million, $0.8 million and $1.3 million.

Net cash used in financing activities was $11.5 million, $4.0 million and $2.9 million in 2017, 2016 and 2015, respectively. In 2017, cash used in financing activities was primarily for dividends paid during 2017 totaling $13.0 million, $0.1 million used to repay outstanding capital lease obligations and $0.8 million used as payment of payroll taxes on stock-based compensation through withholding shares offset by $2.4 million from proceeds from stock option exercises. In 2016 cash used in financing activities was primarily related to dividends paid. In 2015, we repaid approximately $2.7 million of capital lease obligations and repurchased approximately $0.2 million of treasury stock. Net cash used in financing activities from discontinued operations totaled $0, $0.1 million and $0.1 million in 2017, 2016 and 2015, respectively.

The Company maintains a $75.0 million secured revolving credit agreement 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 (“LIBO”), 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 December 31, 2017, eligible collateral under the credit agreement was $74.6 million, total availability was $73.1 million, total outstanding letters of credit were $2.9 million, excess availability was $70.2 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 December 31, 2017.

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 the segments we operate in.

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 significant cash balances and minimal debt.

The expenses, capital expenditures and exit activities described above will require significant levels of liquidity, which we believe can be adequately funded from our currently available cash resources. In 2018 we anticipate capital expenditures of up to $8.0 million, though at this time we are not contractually committed to incur these expenditures. Over the past several years we have engaged in opportunistic acquisitions, choosing to pay the purchase price in cash, and may do so in the future as favorable situations arise. However, a deep and prolonged period of reduced business spending could adversely impact our cash resources and force us to either forego future acquisition opportunities or to pay the purchase price in shares of our common stock, which could have a dilutive effect on our earnings per share. We believe that our cash balances, future cash flows from operations and our availability under credit facilities will be sufficient to fund our working capital and other cash requirements for at least the next twelve months.

We 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 December 31, 2017, we had no investments with maturities of greater than three months. Accordingly, we do not believe that our cash balances have significant exposure to interest rate risk. At December 31, 2017 cash balances held in foreign subsidiaries totaled approximately $41.8 million. These balances are held in local country banks and are held primarily to support local working capital needs. The Company intends to repatriate excess foreign cash balances when available and when it is tax efficient. The Company had in excess of $214 million of liquidity (cash and undrawn line of credit) in the U.S. as of December 31, 2017, which is sufficient to fund its U.S. operations and capital needs, including any dividend payments, for the foreseeable future.

We are obligated under non-cancelable operating leases for the rental of most of our facilities and certain of our equipment which expires at various dates through 2032. We have sublease agreements for unused space we lease in the United States and Germany. In the event the sub lessee is unable to fulfill its obligations, we would be responsible for rents due under the leases.

Following is a summary of our contractual obligations for future principal payments on our debt, minimum rental payments on our non-cancelable operating leases and minimum payments on our other purchase obligations as of December 31, 2017 (in millions):

		Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:						
Capital lease obligations	$	0.2	0.1	0.1	—	—
Non-cancelable operating leases, net of subleases		120.3	18.4	38.1	27.5	36.3
Purchase & other obligations		23.6	4.4	10.1	9.1	—
Total contractual obligations	$	144.1	22.9	48.3	36.6	36.3

Our purchase and other obligations consist primarily of product purchase commitments, certain employment agreements and service agreements.

In addition to the contractual obligations noted above, we had $2.9 million of standby letters of credit outstanding as of December 2017.

We are party to certain litigation, the outcome of which we believe, based on discussions with legal counsel, will not have a material adverse effect on our consolidated financial statements.

Tax contingencies are related to uncertain tax positions taken on income tax returns that may result in additional tax, interest and penalties being paid to taxing authorities. As of December 31, 2017, the Company had no material uncertain tax positions.

Off-Balance Sheet Arrangements

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

Item 7A. 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 European Union Euros and Canadian Dollars) as measured against the U.S. Dollar and each other.

The translation of the financial statements of our operations located 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. Sales would have fluctuated by approximately $49.6 million and pretax loss would have fluctuated by approximately $2.6 million if average foreign exchange rates changed by 10% in 2017. 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 December 31, 2017 we had no outstanding forward exchange contracts.

Our exposure to market risk for changes in interest rates relates primarily to our variable rate debt. Our variable rate debt consists of short-term borrowings under our credit facilities. As of December 31, 2017, 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 over the next fiscal year.

Item 8. Financial Statements and Supplementary Data.

The information required by Item 8 of Part II is incorporated herein by reference to the Consolidated Financial Statements filed with this report; see Item 15 of Part IV.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. 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 December 31, 2017. 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.

Inherent Limitations of Internal Controls over Financial Reporting

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.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its internal control over financial reporting based on the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's internal control over financial reporting was effective as of December 31, 2017.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, a copy of which is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ending December 31, 2017 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Systemax Inc.

Opinion on Internal Control over Financial Reporting

We have audited Systemax Inc.'s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Systemax Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2017 consolidated financial statements of the Company and our report dated March 15, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal controls over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process 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. A Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/Ernst & Young LLP

New York, NY

March 15, 2018

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 of Part III is hereby incorporated by reference to the Company's Proxy Statement for the 2018 Annual Meeting of Stockholders. (the "Proxy Statement").

Item 11. Executive Compensation.

The information required by Item 11 of Part III is hereby incorporated by reference to the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by item 12 of Part III is hereby incorporated by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of Part III is hereby incorporated by reference to the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 of Part III is hereby incorporated by reference to the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

2 Financial Statement Schedule:

The following financial statement schedule is filed as part of this report and should be read together with our consolidated financial statements:

Schedules not included with this additional financial data have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

Item 15. Exhibits and Financial Statement Schedules.

3 Exhibits.

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to the Company's registration statement on Form S-1) (Registration No. 33-92052).
3.2	Certificate of Amendment of Certificate of Incorporation of the Company (incorporated by reference to the Company's report on Form 8-K dated May 18, 1999).
3.3	Amended and Restated By-laws of the Company (effective as of December 29, 2007, incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2007).
3.4	Amendment to the Bylaws of the Company (incorporated by reference to the Company's report on Form 8-K dated March 3, 2008).
4.1	Stockholders Agreement (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended September 30, 1995).
10.1*	Form of 1999 Long-Term Stock Incentive Plan as amended (incorporated by reference to the Company's report on Form 8-K dated May 20, 2003).
10.2*	Form of 2006 Stock Incentive Plan for Non-Employee Directors (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2006).
10.3	Build-to-Suit Lease Agreement dated April 1995 among SYX Distribution Inc. (tenant), American National Bank and Trust Company of Chicago (trustee for the original landlord) and Walsh, Higgins & Company (contractor) (Naperville, IL Facility) ("Naperville Lease") (incorporated by reference to the Company's registration statement on Form S-1) (Registration No. 33-92052).
10.4	First Amendment, dated as of February 1, 2006, to the Naperville Lease between SYX Distribution Inc. (tenant) and Ambassador Drive LLC (landlord) (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2005).
10.5	Lease Agreement, dated December 8, 2005, between Global Equipment Company Inc. (tenant) and Hamilton Business Center, LLC (landlord) (Buford, Georgia facility) (the "Buford Lease") (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2005).
10.6	First Amendment, dated June 12, 2006, to the Buford Lease, between Global Equipment Company Inc. (tenant) and Hamilton Business Center, LLC (landlord) (Buford, Georgia distribution center) (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2005).
10.7*	Employment Agreement, dated as of January 17, 2007, between the Company and Lawrence P. Reinhold (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2006).
10.8*	Amendment No. 1, dated December 30, 2009, to the Employment Agreement between the Company and Lawrence P. Reinhold (incorporated by reference to the Company's report on Form 8-K dated December 30, 2009).
10.9	Lease Agreement, dated April 16, 2010, between Jefferson Project I LLC (landlord) and SYX Distribution Inc. (tenant) (Jefferson, GA facility) (the "Jefferson Lease") (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 2012).
10.10	First Amendment, dated August 24, 2010, to the Jefferson Lease, between Jefferson Project I LLC (landlord) and SYX Distribution Inc. (tenant) (Jefferson, GA facility) (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 2012).
10.11	Lease Agreement, dated February 27, 2012, between PR I Washington Township NJ, LLC (landlord) and Global Equipment Company Inc. (tenant) (Robbinsville, NJ facility) (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 2012).
10.12*	Form of 2010 Long Term Incentive Plan (incorporated by reference to the Company's Definitive Proxy Statement filed April 29, 2010).
10.13*	Employment Agreement, dated April 12, 2012, between the Company and Eric Lerner (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 2012).
10.14	Lease Agreement, dated December 10, 2014, between Prologis, L.P. (landlord) and Global Industrial Distribution Inc. (tenant) (Las Vegas, NV distribution center) (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2014).

10.15*	Amendment to the Term of the 2010 Long Term Incentive Plan (incorporated by reference to the Company's Supplemental Proxy Material filed May 18, 2015).
10.16	Third Amended and Restated Credit Agreement dated as of October 28, 2016, by and among Systemax Inc. and certain affiliates thereof and JPMorgan Chase Bank, N.A., as Administrative Agent, Sole Bookrunner and Sole Lead Arranger, and the lenders from time to time party thereto (incorporated by reference to the Company's report on Form 8-K dated November 3, 2016).
10.17	Third Amended and Restated Pledge and Security Agreement dated as of October 28, 2016, by and among Systemax Inc. and certain affiliates thereof and JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the lenders party to the Third Amended and Restated Credit Agreement (incorporated by reference to the Company's report on Form 8-K dated November 3, 2016).
10.18	Amended and Restated Lease dated December 14, 2016, by and between Global Equipment Company Inc. (tenant) and Addwin Realty Associates, LLC (landlord) (Port Washington, NY facility) (incorporated by reference to the Company's report on Form 8-K dated December 16, 2016).
14	Corporate Ethics Policy for Officers, Directors and Employees (revised as of February 2018) filed herewith).
21	Subsidiaries of the Registrant (filed herewith).
23	Consent of Independent Registered Public Accounting Firm (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
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

*Exhibit is a management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ LAWRENCE REINHOLD

Lawrence Reinhold
President and Chief Executive Officer

Date: March 15, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RICHARD LEEDS Richard Leeds	Executive Chairman and Director	March 15, 2018
/s/ BRUCE LEEDS Bruce Leeds	Vice Chairman and Director	March 15, 2018
/s/ ROBERT LEEDS Robert Leeds	Vice Chairman and Director	March 15, 2018
/s/ LAWRENCE REINHOLD Lawrence Reinhold	President and Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2018
/s/ THOMAS CLARK Thomas Clark	Vice President and Chief Financial Officer (Principal Financial Officer)	March 15, 2018
/s/ THOMAS AXMACHER Thomas Axmacher	Vice President and Controller (Principal Accounting Officer)	March 15, 2018
/s/ ROBERT ROSENTHAL Robert Rosenthal	Director	March 15, 2018
/s/ BARRY LITWIN Barry Litwin	Director	March 15, 2018
/s/ CHAD LINDBLOOM Chad Lindbloom	Director	March 15, 2018

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Systemax Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Systemax Inc. (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 15, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2005.

/s/ Ernst & Young LLP .

New York, NY

March 15, 2018

SYSTEMAX INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except for share data)

	December 31,	
	2017	**2016**
ASSETS:		
Current assets:		
Cash	$ 184.5	$ 149.7
Accounts receivable, net of allowances of $9.9 and $17.2	174.3	148.6
Inventories	131.5	116.7
Prepaid expenses and other current assets	3.8	3.9
Current assets of discontinued operations	—	92.3
Total current assets	494.1	511.2
Property, plant and equipment, net	15.1	16.4
Deferred income taxes	26.2	4.2
Goodwill and intangibles	14.5	15.7
Other assets	1.5	1.5
Long term assets of discontinued operations	—	17.1
Total assets	$ 551.4	$ 566.1
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 196.1	$ 181.3
Dividend payable	55.7	—
Accrued expenses and other current liabilities	64.0	49.2
Current liabilities of discontinued operations	—	94.5
Total current liabilities	315.8	325.0
Deferred income tax liability	0.1	0.3
Other liabilities	23.7	24.3
Long term liabilities of discontinued operations	—	2.1
Total liabilities	339.6	351.7
Commitments and contingencies		
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 38,861,992 and 38,861,992 shares; outstanding 37,093,774 and 36,924,293 shares	0.4	0.4
Additional paid-in capital	186.5	185.5
Treasury stock at cost —1,768,218 and 1,937,699 shares	(21.8)	(23.9)
Retained earnings	44.8	73.1
Accumulated other comprehensive income (loss)	1.9	(20.7)
Total shareholders' equity	211.8	214.4
Total liabilities and shareholders' equity	$ 551.4	$ 566.1

See notes to consolidated financial statements.

SYSTEMAX INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2017	2016	2015
Net sales	$ 1,265.4	1,170.3	$ 1,243.5
Cost of sales	914.0	862.4	933.0
Gross profit	351.4	307.9	310.5
Selling, distribution and administrative expenses	279.8	276.3	287.1
Special charges, net	0.3	3.9	26.9
Operating income (loss) from continuing operations	71.3	27.7	(3.5)
Foreign currency exchange loss	—	1.3	7.5
Interest and other expense, net	0.5	0.3	0.7
Income (loss) from continuing operations before income taxes	70.8	26.1	(11.7)
(Benefit) provision for income taxes	(5.3)	9.2	12.3
Net income (loss) from continuing operations	76.1	16.9	(24.0)
Loss from discontinued operations, net of tax	(35.7)	(49.5)	(75.8)
Net income (loss)	$ 40.4	$ (32.6)	$ (99.8)
Basic and diluted EPS:			
Net income (loss) per share from continuing operations-basic	$ 2.06	$ 0.45	$ (0.65)
Net income (loss) per share from continuing operations-diluted	$ 2.02	$ 0.45	$ (0.65)
Net loss per share from discontinued operations-basic and diluted	$ (0.96)	$ (1.33)	$ (2.04)
Net income per share-basic	$ 1.09	$ (0.88)	$ 2.69
Net income per share-diluted	$ 1.07	$ (0.88)	$ 2.69
Weighted average common and common equivalent shares:			
Basic	37.0	37.2	37.1
Diluted	37.6	37.2	37.1
Dividends declared	1.85	0.10	—

See notes to consolidated financial statements.

SYSTEMAX INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	Year Ended December 31,		
	2017	**2016**	**2015**
Net income (loss)	$ 40.4	$ (32.6)	$ (99.8)
Other comprehensive loss:			
Foreign currency translation income (loss)	8.2	(4.9)	(6.9)
Total comprehensive income (loss)	$ 48.6	$ (37.5)	$ (106.7)

See notes to consolidated financial statements.

SYSTEMAX INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2017	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) from continuing operations	$ 76.1	$ 16.9	$ (24.0)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Depreciation and amortization	5.1	5.3	5.9
Asset impairment and other non-cash benefit	—	(0.2)	1.0
(Benefit) provision for deferred income taxes	(17.8)	4.1	4.3
Provision for returns and doubtful accounts	1.3	3.6	6.7
Compensation expense related to equity compensation plans	1.6	1.7	0.9
(Gain) loss on dispositions and abandonment	(0.1)	(4.3)	(0.1)
Changes in operating assets and liabilities:			
Accounts receivable	(13.7)	24.2	39.0
Inventories	(9.6)	6.6	139.8
Prepaid expenses and other current assets	1.5	5.5	1.5
Income taxes payable (receivable)	6.3	(0.2)	0.8
Accounts payable	2.9	(73.2)	(43.1)
Accrued expenses and other current liabilities	4.3	(13.6)	(4.0)
Net cash provided by (used in) operating activities from continuing operations	57.9	(23.6)	128.7
Net cash used in operating activities from discontinued operations	(12.3)	(33.8)	(42.2)
Net cash provided by (used in) operating activities	45.6	(57.4)	86.5
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2.8)	(2.4)	(10.0)
Proceeds from disposals of property, plant and equipment	0.1	0.5	1.4
Acquisition of Plant Equipment Group	—	—	(24.8)
Net cash used in investing activities from continuing operations	(2.7)	(1.9)	(33.4)
Net cash used in investing activities from discontinued operations	(0.1)	(0.8)	(1.3)
Net cash used in investing activities	(2.8)	(2.7)	(34.7)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of capital lease obligations	(0.1)	(0.3)	(2.7)
Dividends paid	(13.0)	(3.7)	—
Proceeds from issuance of common stock	2.4	—	—
Payment of payroll taxes on stock-based compensation through shares withheld	(0.8)	—	—
Repurchase of treasury stock	—	—	(0.2)
Net cash used in financing activities from continuing operations	(11.5)	(4.0)	(2.9)
Net cash used in financing activities from discontinued operations	—	(0.1)	(0.1)
Net cash used in financing activities	(11.5)	(4.1)	(3.0)
EFFECTS OF EXCHANGE RATES ON CASH	3.5	(1.2)	1.3
NET INCREASE (DECREASE) IN CASH	34.8	(65.4)	50.1
CASH – BEGINNING OF YEAR	149.7	215.1	165.0

CASH – END OF YEAR	$ 184.5	$ 149.7	$ 215.1
Supplemental disclosures:			

Interest paid	$	0.4	$	0.7	$	0.7
Income taxes paid	$	5.8	$	5.8	$	4.1
Supplemental disclosures of non-cash investing and financing activities:						
Acquisitions of equipment through capital leases	$	0.3	$	—	$	—

See notes to consolidated financial statements.

SYSTEMAX INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions, except share data in thousands)

	Common Stock						
	Number of Shares Outstanding	Amount	Additional Paid-in Capital	Treasury Stock, At Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balances, December 31, 2014	36,808	$ 0.4	$ 184.3	$ (25.4)	$ 209.2	$ (8.9)	$ 359.6
Stock-based compensation expense			1.2				1.2
Issuance of restricted stock	86		(1.1)	1.1			—
Exercise of stock options	4		—	—			—
Surrender of fully vested options	(25)			(0.2)			(0.2)
Change in cumulative translation adjustment						(6.9)	(6.9)
Net loss					(99.8)		(99.8)
Balances, December 31, 2015	36,873	$ 0.4	$ 184.4	$ (24.5)	$ 109.4	$ (15.8)	253.9
Stock-based compensation expense			1.7				1.7
Issuance of restricted stock	51		(0.6)	0.6			—
Dividends					(3.7)		(3.7)
Change in cumulative translation adjustment						(4.9)	(4.9)
Net loss					(32.6)		(32.6)
Balances, December 31, 2016	36,924	$ 0.4	$ 185.5	$ (23.9)	$ 73.1	$ (20.7)	$ 214.4
Stock-based compensation expense			1.6				1.6
Issuance of restricted stock	68		(0.8)	0.8			—
Stock withheld for employee taxes	(48)		(0.3)	(0.5)			(0.8)
Cancellation of restricted shares	(8)		—	(0.1)			(0.1)
Proceeds from issuance of common stock	158		0.5	1.9			2.4
Dividends					(68.7)		(68.7)
Discontinued European entities cumulative translation adjustment						14.4	14.4
Change in cumulative translation adjustment						8.2	8.2
Net income					40.4		40.4
Balances, December 31, 2017	37,094	$ 0.4	$ 186.5	$ (21.8)	$ 44.8	$ 1.9	$ 211.8

See notes to consolidated financial statements.

SYSTEMAX INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Systemax Inc., through its subsidiaries, is primarily a direct marketer of brand name and private label products. The Company operates and is internally managed in two reportable segments - Industrial Products Group (“IPG”) and Europe Technology Products Group (“ETG”). Smaller business operations and corporate functions are aggregated and reported as the additional segment – Corporate and Other (“Corporate”). As previously disclosed in the second quarter of 2017 and for all periods presented, the Company modified the presentation of certain costs associated with operating our distribution centers as well as with our Purchasing and Product Development personnel. Historically these costs had been included as a component of cost of sales and are now included within Selling, Distribution and Administrative expenses ("SD&A"). For the year ended 2017, 2016 and 2015, the costs reclassified from cost of sales to SD&A, included within continuing operations, was $21.8 million, $38.9 million and $34.0 million, respectively,

As disclosed in our Form 8-K dated March 31, 2017, on March 24, 2017, certain wholly owned subsidiaries of the Company executed a definitive securities purchase agreement (the “Purchase Agreement”) with certain special purpose companies formed by Hilco Capital Limited (“Hilco” and together with its management team partners, “Purchaser”). Pursuant to the Purchase Agreement, Purchaser acquired all of the Company’s interests in Systemax Europe SARL, which included its subsidiaries, Systemax Business Services K.F.T., Misco UK Limited, Systemax Italy S.R.L., Misco Iberia Computer Supplies S.L., Misco AB, Global Directmail B.V. and Misco Solutions B.V. (collectively, the “SARL Businesses”). The SARL businesses were reported within the Company's European Technology Products Group ("ETG") segment. The transaction closed immediately upon execution of the Purchase Agreement.

The Company retained its France technology value added reseller business, which is conducted through its subsidiary, Inmac Wstore S.A.S., which was not part of the sale transaction.

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

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

The Company sold certain assets of its Misco Germany business in 2016, which had been reported as part of its ETG segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-08, prior year results of the Misco Germany operations are presented within continuing operations. Also in 2016, the Company sold its rebate processing business, which had been reported as part of its Corporate segment, and this disposition was also not a strategic shift with a major impact as defined under ASU 2014-08, prior year results of the rebate processing business are presented within continuing operations.

In 2015, the Company announced a restructuring of its NATG business in March 2015. The NATG segment sold products categorized as Information and Communications Technology (“ICT”) and Consumer Electronics (“CE”) products. These products included computers, computer supplies and consumer electronics which were marketed in North America. The Company followed the guidance under Accounting Standards Update (“ASU”) 2014-8, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which required disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under ASU 2014-8 in order for a disposal to qualify for discontinued operations presentation in the financial statements, the disposal must be a “strategic shift” with a major impact for the reporting entity. If the entity meets this threshold, only the components that were in operation at the time of disposal are presented as discontinued operations. The sale of the NATG business in December 2015 had a major impact on the Company and therefore met the strategic shift criteria. The NATG components in operation at the time of the sale were the B2B and Ecommerce businesses and three remaining retail stores. Accordingly, these components and the results of operations have been adjusted in the accompanying financial statements to reflect their presentation in discontinued operations.

Principles of Consolidation — The accompanying consolidated financial statements include the accounts of Systemax Inc. and its wholly-owned subsidiaries (collectively, the “Company” or “Systemax”). All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications — Certain prior year amounts were reclassified to conform to current year presentation. As previously disclosed, in the second quarter of 2017 and for all periods presented the Company modified the presentation of certain costs associated with operating our distribution centers as well as with our Purchasing and Product Development personnel. Historically these costs had been included as a component of cost of sales and are now included within Selling, Distribution and Administrative expenses ("SD&A"). For the year ended 2017, 2016 and 2015, the costs reclassified from cost of sales to SD&A, included within continuing operations, was $21.8 million, $38.9 million and $34.0 million, respectively,

Fiscal Year — The Company’s fiscal year ends at midnight on the Saturday closest to December 31. For clarity of presentation herein, all fiscal years are referred to as if they ended on December 31. The fiscal year is divided into four fiscal quarters that each end at midnight on a Saturday. Fiscal quarters will typically include 13 weeks, but the fourth quarter will include 14 weeks in a 53 week fiscal year. For clarity of presentation herein, all fiscal quarters are referred to as if they ended on the traditional calendar month. The full year of 2017 and 2016 included 52 weeks compared to 2015 which had 53 weeks.

Use of Estimates In Financial Statements — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company bases its estimates on historical experience, current business factors, and various other assumptions that the Company believes are necessary to consider to form a basis for making judgments about the carrying values of assets and liabilities, the recorded amounts of revenue and expenses, and the disclosure of contingent assets and liabilities. The Company is subject to uncertainties such as the impact of future events, economic and political factors, and changes in the Company’s business environment, therefore, actual results could differ from these estimates.

Changes in estimates are made when circumstances warrant. Such changes in estimates and refinements in estimation methodologies are reflected in reported results of operations; if material, the effects of changes in estimates are disclosed in the notes to the consolidated financial statements. Significant estimates and assumptions by management affect the allowance for doubtful accounts, sales returns and allowances, inventory reserves, allowances for cooperative advertising, vendor drop shipments, the carrying value of long-lived assets (including goodwill and intangible assets), capitalization and amortization of software development costs, the provision for income taxes and related deferred tax accounts, certain accrued liabilities, revenue recognition, contingencies, sub-rental lease income, litigation and related legal accruals and the value attributed to employee stock options and other stock-based awards.

Foreign Currency Translation — The Company has operations in numerous foreign countries. The functional currency of each foreign country is the local currency. The financial statements of the Company’s foreign entities are translated into U.S. dollars, the reporting currency, using year-end exchange rates for assets and liabilities, year to date average exchange rates for the statement of operations items and historical rates for equity accounts. Translation gains or losses are recorded as a separate component of shareholders’ equity.

Cash — The Company considers amounts held in money market accounts and other short-term investments, including overnight bank deposits, with an original maturity date of three months or less to be cash. Cash overdrafts are classified in accounts payable.

Inventories — Inventories consist primarily of finished goods and are stated at the lower of cost or net realizable value. Cost is determined by using the first-in, first-out method except in ETG where an average cost is used.

Property, Plant and Equipment — Property, plant and equipment is stated at cost. Furniture, fixtures and equipment, including equipment under capital leases, are depreciated using the straight-line or accelerated method over their estimated useful lives ranging from three to ten years. Leasehold improvements are amortized over the shorter of the useful lives or the term of the respective leases.

Maintenance and repairs are charged to expense as incurred, and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statement of operations in the period realized.

Internal-Use Software - Internal-use software is included in fixed assets and is amortized on a straight-line basis over 3 years. The Company capitalizes costs incurred during the application development stage. Costs related to minor upgrades, minor enhancements and maintenance activities are expensed as incurred.

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

In 2016, an impairment charge of approximately $1.7 million was recorded in the ETG segment discontinued operations in the United Kingdom as a result of negative cash flows in the business. .

Business Combinations — The Company accounts for its business combinations using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the acquisition date fair values of the assets transferred and liabilities assumed by the Company to the sellers and equity instruments issued. Transaction costs directly attributable to the acquisition are expensed as incurred. Identifiable assets and liabilities acquired or assumed are measured separately at their fair values as of the acquisition date. The excess of (i) the total costs of acquisition over (ii) the fair value of the identifiable net assets of the acquiree is recorded as goodwill.

Goodwill and Intangible Assets — Goodwill represents the excess of the cost of acquired assets over the fair value of assets acquired. The Company performs a qualitative assessment of goodwill 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.

For non-amortizing intangibles the Company performs a qualitative assessment to determine if there are indicators of impairment. If indicators of impairment exist, a fair market value analysis of the intangibles would be completed using a discounted cash flow model with inputs such as projected sales growth, gross margin percentages, new business opportunities, working capital requirements, capital expenditures and selling, distribution and administrative expense. Any excess of book carrying value over the fair market value of the intangible asset determined in the analysis would be charged to impairment expense.

In December 2016, the Company conducted an evaluation of the intangible assets in its ETG discontinued operations segment and IPG segment and concluded that assets were impaired in the United Kingdom and Mexico operations and impairment charges of approximately $0.3 million and $0.1 million, respectively, was recorded in the fourth quarter.

Income Taxes — The Company accounts for income taxes using the liability method, under which deferred tax assets and liabilities are determined based on the future tax consequences attributable to differences between the financial reporting carrying amounts of existing assets and liabilities and their respective tax basis and tax credit carry forwards and net operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to be in effect when the differences are expected to reverse.

The Company assesses the likelihood that deferred tax assets will be recovered from future taxable income, and a valuation allowance is established when necessary to reduce deferred tax assets to the amounts more likely than not expected to be realized.

The Company recognizes and measures uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained in an audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Significant judgment is required to evaluate uncertain tax positions. The Company evaluates its uncertain tax positions on a regular basis. Its evaluations are based on a number of factors, including changes in facts and circumstances, changes in tax law, correspondence with tax authorities during the course of audit and effective settlement of audit issues. The Company's policy is to include interest and penalties related to unrecognized tax benefits as income tax expense in the consolidated statements of operations.

Revenue Recognition and Accounts Receivable —In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard that amends the guidance for the recognition of revenue from contracts with customers to transfer goods and services. The new revenue recognition standard is effective for interim and annual periods beginning on January 1, 2018. The new standard is required to be adopted using either a full-retrospective or a modified-retrospective approach. The Company will adopt the standard using the modified-retrospective approach beginning in 2018. The Company has completed an impact assessment and has determined that there will be no material impact to total revenues in our consolidated statements of income, accounting policies, business processes, internal controls or disclosures.

The Company recognizes sales of products, including shipping revenue, when persuasive evidence of an order arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Generally, these criteria are met at the time the product is received by the customers when title and risk of loss have transferred except in our Industrial Products segment where title and risk pass at time of shipment. Allowances for estimated subsequent customer returns, rebates and sales incentives are provided when revenues are recorded. Revenues exclude sales tax collected. The Company evaluates collectability of accounts receivable based on numerous factors, including past transaction history with customers and their credit rating and provides a reserve for accounts that are potentially uncollectible. Trade receivables are generally written off once all collection efforts have been exhausted. Accounts receivable are shown in the consolidated balance sheets net of allowances for doubtful collections and subsequent customer returns.

Shipping and Handling Costs— The Company recognizes shipping and handling costs in cost of sales.

Advertising Costs — Expenditures for internet, television, local radio and newspaper advertising are expensed in the period the advertising takes place. Catalog preparation, printing and postage expenditures are amortized over the period of catalog distribution during which the benefits are expected, generally one to four months.

Net advertising expenses were $67.0 million, $71.4 million and $74.4 million during 2017, 2016 and 2015, respectively, and are included in the accompanying consolidated statements of operations within continuing and discontinued operations. Of the previously mentioned amounts, ETG discontinued operations net advertising expenses totaled $0.6 million during 2017 and $2.5 million during 2016 and 2015. NATG discontinued operations net advertising expenses totaled $0.3 million, $1.5 million and $7.5 million during 2017, 2016 and 2015, respectively. For 2017 and 2016 NATG advertising expense was primarily related to the wind down of outstanding accounts. The Company utilizes advertising programs to drive traffic to its websites, support vendors, including catalogs, internet and magazine advertising, and receives payments and credits from vendors, including consideration pursuant to volume incentive programs and cooperative marketing programs. The Company accounts for consideration from vendors as a reduction of cost of sales unless certain conditions are met showing that the funds are used for specific, incremental, identifiable costs, in which case the consideration is accounted for as a reduction in the related expense category, such as advertising expense. The amount of vendor consideration recorded as a reduction of selling, distribution and administrative expenses totaled $5.8 million, $6.4 million and $20.2 million during 2017, 2016 and 2015, respectively. Of the previously mentioned amounts, ETG discontinued operations amount of vendor consideration was $0.4 million, $2.6 million and $3.3 million during 2017, 2016 and 2015, respectively. NATG discontinued operations vendor consideration for 2016 was $0.9 million in costs due primarily to vendor balance reconciliations and for 2015, NATG operations vendor consideration of $12.1 million was recorded as a reduction of selling, distribution and administrative expenses primarily in discontinued operations.

Stock Based Compensation — In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which modifies certain accounting aspects for share-based payments to employees including, among other elements, the accounting for income taxes and forfeitures, as well as classifications in the statement of cash flows. The Company adopted this standard effective January 1, 2017 and its adoption did not materially impact the Company's consolidated financial position or results of operations when implemented in the first quarter of 2017. Under this guidance, a company recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than paid-in capital, which is a change required to be applied on a prospective basis in accordance with the new guidance. We adopted the cash flow presentation that requires presentation of excess tax benefits within operating activities on a prospective basis. Accordingly, for the year ended December 31, 2017, we recorded discrete income tax benefits in the consolidated statement of operations of approximately $0.8 million, for excess tax benefits related to equity compensation. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact on our results of operations. The presentation requirements for cash flows related to employee taxes paid for withheld shares is disclosed in our consolidated statement of cash flows and has been applied retrospectively, Cash flows related to employee taxes paid for withheld shares was immaterial for 2016 and 2015.

The fair value of employee share options is recognized in expense over the vesting period of the options, using the graded attribution method. The fair value of employee share options is determined on the date of grant using the Black-Scholes option pricing model. The Company has used historical volatility in its estimate of expected volatility. The expected life represents the period of time (in years) for which the options granted are expected to be outstanding. The risk-free interest rate is based on the U.S. Treasury yield curve. Stock-based compensation expense includes an estimate for forfeitures and is recognized over the expected term of the award.

Net Income (Loss) Per Common Share – Net income per common share - basic is 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 0.4 million and the weighted average number of restricted stock awards included in the computation of diluted earnings per share was 0.2 million for the year ended December 31, 2017. Shares used in calculating basic and diluted net loss per share was the same for the years ended December 31, 2016 and 2015, respectively, as the inclusion of all potential shares of common stock of the Company outstanding would have been anti-dilutive. The weighted average number of stock options and restricted stock awards outstanding excluded from the computation of diluted income (loss) per share was 0.04 million shares, 1.3 million shares, and 1.0 million shares for the years ended December 31, 2017, 2016 and 2015, respectively, due to their antidilutive effect.

Employee Benefit Plans - The Company's U.S. subsidiaries participate in a defined contribution 401(k) plan covering substantially all U.S. employees. Employees may invest 1% or more of their eligible compensation, limited to maximum amounts as determined by the Internal Revenue Service. The Company provides a matching contribution to the plan, determined as a percentage of the employees' contributions. Aggregate expense to the Company for contributions to the plan was approximately $0.7 million in 2017, $0.4 million in 2016 and $0.9 million in 2015, respectively and of these amounts, NATG operations expense was zero in each of 2017 and 2016 and $0.4 million in 2015.

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 December 31, 2017 and 2016, 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 weighted average interest rate on short-term borrowings was 4.7%**,** 4.7% and 4.3%, in 2017, 2016 and 2015, respectively.

The fair value of goodwill, non-amortizing intangibles and long lived assets is measured in connection with the Company's annual impairment testing as discussed above.

Significant Concentrations - Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and accounts receivable. The Company's excess cash balances are invested with money center banks. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers and their geographic dispersion comprising the Company's customer base. The Company also performs on-going credit evaluations and maintains allowances for potential losses as warranted.

The Company purchases substantially all of our products and components directly from manufacturers and large wholesale distributors. Two vendors accounted for 10% of more of our purchases in continuing operations in 2017: one vendor accounted for 16.0% and another vendor accounted for 12.0%. In 2016, two vendors accounted for 10% or more of our purchases: each vendor accounted for 13.6% of our purchases and in 2015, one vendor accounted for 11.2% and another accounted for 11.1% of our purchases.

Recent Accounting Pronouncements

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

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard that amends the guidance for the recognition of revenue from contracts with customers to transfer goods and services. The new revenue recognition standard is effective for interim and annual periods beginning on January 1, 2018. The new standard is required to be adopted using either a full-retrospective or a modified-retrospective approach. The Company will adopt these standards using the modified-retrospective approach beginning on January 1, 2018. The Company has completed an impact assessment and has determined that there will be no material impact to total revenues in our consolidated statements of income, accounting policies, business processes, internal controls or disclosures.

In February 2016, the FASB issued ASU 2016-2, *Leases (Topic 842)*. ASU 2016-2 related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted. The Company is currently in the process of evaluating the impact of the adoption of this standard on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which modifies certain accounting aspects for share-based payments to employees including, among other elements, the accounting for income taxes and forfeitures, as well as classifications in the statement of cash flows. The Company adopted this standard effective January 1, 2017 and its adoption did not materially impact the Company's consolidated financial position or results of operations when implemented in the first quarter of 2017. Under this guidance, a company recognizes all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than paid-in capital, which is a change required to be applied on a prospective basis in accordance with the new guidance. We adopted the cash flow presentation that requires presentation of excess tax benefits within operating activities on a prospective basis. Accordingly, for the year ended December 31, 2017, we recorded discrete income tax benefits in the consolidated statement of operations of approximately $0.8 million, for excess tax benefits related to equity compensation. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact on our results of operations. The presentation requirements for cash flows related to employee taxes paid for withheld shares is disclosed in our consolidated statement of cash flows and has been applied retrospectively, Cash flows related to employee taxes paid for withheld shares was immaterial for 2016 and 2015.

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

2. DISPOSITIONS AND SPECIAL CHARGES

For 2017 and prior year periods the Company's discontinued operations include the results of the SARL Businesses sold in March 2017 and the NATG business sold in December 2015 (See Note 1). The loss on the sale of the SARL Businesses totaled $23.7 million for the year ended December 31, 2017, which included an $8.2 million loss on the sale of net assets, $14.4 million of cumulative translation adjustments, $1.1 million of legal, professional and other costs, $0.8 million recovery from settlement of an outstanding obligation related to the sale, $0.3 million of severance and other personnel costs and $0.5 million of costs related to a transitional services agreement. Of these charges previously mentioned, $1.4 million required the use of cash.

NATG discontinued operations incurred special charges of approximately $6.9 million throughout the year ended December 31, 2017, of which $6.2 million primarily related to updating our future lease cash flows and $0.7 million related to ongoing restitution proceedings against certain former NATG executives.

Below is a summary of the impact on net sales and net loss and loss per share from discontinued operations for the years ended December 31, 2017, 2016 and 2015.

A reconciliation of pretax loss of Discontinued operations to the Net loss of discontinued operations is as follows:

	Year Ended December 31,		
	2017	2016	2015
Net sales	$ 117.0	$ 521.6	$ 1,664.6
Cost of sales	102.9	461.6	1,516.8
Gross profit	14.1	60.0	147.8
Selling, distribution and administrative expenses	22.1	96.9	221.0
Special charges, net	30.6	11.5	2.6
Operating loss from discontinued operations	(38.6)	(48.4)	(75.8)
Foreign currency exchange loss	0.8	—	1.8
Interest and other expense (income), net	—	0.3	0.3
Loss of discontinued operations before income taxes	(39.4)	(48.7)	(77.9)
Provision (benefit) for income tax	(3.7)	0.8	(2.1)
Net loss from discontinued operations	$ (35.7)	$ (49.5)	$ (75.8)
Net loss per share - basic and diluted	$ (0.96)	$ (1.33)	$ (2.04)

In September 2016 the Company sold the operating business of Misco Germany and in December 2016 the Company sold its rebate processing business. These divestitures were not considered a major strategic shift and the results of these businesses are reflected in continuing operations.

In 2017 the Company incurred special charges of $30.9 million, of which $0.3 million is included in continuing operations within the NATG segment and $30.6 million is included in discontinued operations within the ETG and NATG segments.
The Company expects that total additional charges related to the sale of the SARL Businesses will be less than $1.0 million which will be presented in discontinued operations.

The Company's NATG segment incurred special charges for the year ended December 31, 2017 of approximately $7.2 million, with approximately $6.5 million related to updating our future lease cash flows expectations related to previously exited retail stores of which $0.3 million is included in continuing operations, and $6.2 million in discontinued operations as these charges related to the distribution center and the NATG corporate headquarters, and $0.7 million related to ongoing restitution proceedings against certain former NATG executives which is included in discontinued operations. Amounts that are unpaid at December 31, 2017 are recorded in Accrued expenses and other current liabilities and Other liabilities in the accompanying consolidated balance sheets.

The following table details the associated liabilities related to the ETG segment's severance and other costs recorded within discontinued operations, other restructuring charges that remain for the sale of Germany business in 2016 that is included in continuing operations and the NATG segment's lease liabilities and other costs and (in millions):

	ETG - Severance and other costs	ETG – Lease liabilities and other costs	NATG – Workforce reductions	NATG – Lease liabilities and other exit costs	Total
Balance January 1, 2017	$ —	$ 1.2	$ —	$ 19.3	$ 20.5
Charged to expense	0.3	—	—	6.5	6.8
Paid or otherwise settled	(0.3)	—	—	(6.8)	(7.1)
Balance December 31, 2017	$ —	$ 1.2	$ —	$ 19.0	$ 20.2

The following table details the associated liabilities incurred related to the Technology Products segments special charges (in millions) for 2016:

	ETG - Workforce Reductions and Personnel Costs	ETG – Lease liabilities and other costs	NATG- Workforce Reductions	NATG – Lease liabilities and other exit costs	Total
Balance, January 1, 2016	$ 0.3	$ —	$ 2.7	$ 16.3	$ 19.3
Charged to expense	—	1.9	0.2	16.9	19.0
Paid or otherwise settled	(0.3)	(0.7)	(2.9)	(13.9)	(17.8)
Balance, December 31, 2016	$ —	$ 1.2	$ —	$ 19.3	$ 20.5

3. GOODWILL AND INTANGIBLES

***Goodwill and indefinite-lived intangible assets*:**

The following table provides information related to the carrying value of goodwill (in millions):

	December 31, 2017	December 31, 2016
Balance, January 1	$ 7.6	$ 9.2
Impairment	—	(0.4)
Reclassified to discontinued operations due to sale	—	(1.2)
Balance, December 31	$ 7.6	$ 7.6

Due to the sale of the SARL businesses in March 2017, the Company has reclassified $1.2 million of goodwill at December 31, 2016, to long-term assets from discontinued operations.

In 2017, in the ETG segment, $1.8 million of trademarks that were considered definite-lived intangibles in the prior year are now considered indefinite lived based upon changes in circumstances. The following table provides information related to the carrying value of indefinite lived intangibles as of December 31, 2017 (in millions):

	December 31, 2017	December 31, 2016
Balance, January 1	$ 0.7	$ 0.7
France trademark	1.8	—
Balance, December 31	$ 2.5	$ 0.7

Definite-lived intangible assets:

The following table summarizes information related to definite-lived intangible assets as of December 31, 2017 (in millions):

	December 31, 2017				
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted avg useful life
Client lists	5-10 yrs	$ 2.3	$ 0.9	$ 1.4	7.0
Leases	3-6 yrs	0.8	0.4	0.4	3.1
Domain name	5 yrs	3.4	0.8	2.6	3.8
Total		$ 6.5	$ 2.1	$ 4.4	4.8

Due to the sale of the SARL businesses, the Company has reclassified net book value of definite-lived intangible assets of approximately $0.4 million to long term assets of discontinued operations. Also, in 2017, $1.8 million of trademarks that were considered definite-lived assets in the prior year is now considered indefinite-lived based upon changes in circumstances.

The following table summarizes information related to definite-lived intangible assets as of December 31, 2016 (in millions):

	December 31, 2016				
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted avg useful life
Client lists	5-10 yrs	$ 2.3	$ 0.6	$ 1.7	8.0
Leases	3-6 yrs	0.8	0.3	0.5	4.1
Domain name	5 yrs	3.4	0.2	3.2	4.8
Total		$ 6.5	$ 1.1	$ 5.4	5.7

The aggregate amortization expense for these intangibles was approximately $1.0 million in 2017. The estimated amortization for future years ending December 31 is as follows (in millions):

2018	$ 1.0
2019	1.0
2020	1.1
2021	0.7
2022 and after	$ 0.6
Total	$ 4.4

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consist of the following (in millions):

	December 31,	
	2017	2016
Land improvements	$ 0.8	$ 0.8
Furniture and fixtures, office, computer and other equipment and software	48.8	47.1
Leasehold improvements	16.8	14.6
	66.4	62.5
Less accumulated depreciation and amortization	51.3	46.1
Property, plant and equipment, net	$ 15.1	$ 16.4

Due to the sale of the SARL businesses in March 2017, net property, plant and equipment, at December 31, 2016, of $13.1 million, including capital leases of $0.2 million, have been reclassified to long term assets of discontinued operations on the consolidated balance sheets.

Included in property, plant and equipment are assets under capital leases, as follows (in millions):

	2017	2016
Office, computer and other equipment	$ 6.0	$ 5.7
Less: Accumulated amortization	5.6	5.4
	$ 0.4	$ 0.3

Depreciation charged to continuing operations for property, plant and equipment including capital leases in 2017, 2016, and 2015 was $3.9 million, $4.3 million and $5.6 million, respectively. ETG and NATG discontinued operations total depreciation expense was $0.4 million, $3.1 million and $5.5 million, for 2017, 2016 and 2015, respectively.

5. CREDIT FACILITIES

The Company maintains a $75 million secured revolving credit agreement 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 (“LIBO”), 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 December 31, 2017, eligible collateral under the credit agreement was $74.6 million, total availability was $73.1 million, total outstanding letters of credit were $2.9 million, total excess availability was $70.2 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 December 31, 2017.

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following (in millions):

	December 31,	
	2017	2016
Payroll and employee benefits	$ 23.1	$ 18.6
Advertising	6.5	6.3
Sales and VAT tax payable	4.7	3.4
Freight	4.0	3.2
Reorganization costs	8.1	7.6
Income taxes payable	7.6	0.6
Other	10.0	9.5
	$ 64.0	$ 49.2

7. SHAREHOLDERS’ EQUITY

Stock-Based Compensation Plans

The Company currently has three equity compensation plans which reserve shares of common stock for issuance to key employees, directors, consultants and advisors to the Company. The following is a description of these plans:

The 1999 Long-term Stock Incentive Plan, as amended ("1999 Plan") - This plan was adopted in October 1999 with substantially the same terms and provisions as the 1995 Long-term Stock Incentive Plan. The number of shares that may be granted under this plan to a maximum of 7,500,000. The maximum number of shares granted per type of award to any individual may not exceed 1,500,000 in any calendar year and 3,000,000 in total. The ability to grant new awards under this plan ended on December 31, 2009 but awards granted prior to such date continue until their expiration. A total of 158,375 options were outstanding under this plan as of December 31, 2017.

The 2006 Stock Incentive Plan For Non-Employee Directors - This plan, adopted by the Company's stockholders in October, 2006, replaces the 1995 Stock Option Plan for Non-Employee Directors. The Company adopted the plan so that it could offer directors of the Company who are not employees of the Company or of any entity in which the Company has more than a 50% equity interest ("independent directors") an opportunity to participate in the ownership of the Company by receiving options to purchase shares of common stock at a price equal to the fair market value at the date of grant of the option and restricted stock awards. Awards for a maximum of 200,000 shares may be granted under this plan. A total of 5,000 options were outstanding under this plan as of December 31, 2017.

The 2010 Long-term Stock Incentive Plan ("2010 Plan") - This plan was adopted in April 2010 with substantially the same terms and provisions as the 1999 Long-term Stock Incentive Plan. The maximum number of shares granted per type of award to any individual may not exceed 1,500,000 in any calendar year. Restricted stock grants and common stock awards reduce stock options otherwise available for future grant. Awards for a maximum of 7,500,000 shares may be granted under this plan. A total of 837,925 options and 191,267 restricted stock units were outstanding under this plan as of December 31, 2017.

Shares issued under our share-based compensation plans are usually issued from shares of our common stock held in the treasury.

Compensation cost related to non-qualified stock options recognized in operating results (selling, distribution and administrative expense) for 2017, 2016 and 2015 was $1.1 million, $0.8 million, and $0.2 million respectively, and of these amounts ETG segment's compensation cost related to non-qualified stock options was de minimis in 2017, approximately $0.1 million in 2016 and de minimis in 2015. NATG segment's compensation cost related to non-qualified stock options was de minimis in 2016 and 2015. The related future income tax benefits recognized for 2017, 2016 and 2015 were $0.2 million, $0.3 million and $0.1 million, respectively.

Stock Options

The following table presents the weighted-average assumptions used to estimate the fair value of options granted in 2017, 2016 and 2015:

	2017	2016	2015
Expected annual dividend yield	2.4%	—%	—%
Risk-free interest rate	2.26%	1.64%	1.73%
Expected volatility	48.9%	44.4%	40.2%
Expected life in years	4.00	7.10	6.30

The following table summarizes information concerning outstanding and exercisable options:

	Weighted Average					
	2017		2016		2015	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Outstanding at beginning of year	1,410,250	$ 12.57	954,625	$ 15.98	1,127,250	$ 16.12
Granted	10,000	$ 24.36	670,000	$ 8.43	25,000	$ 10.62
Exercised	(138,450)	$ 13.49	—	$ —	(4,000)	$ 6.30
Cancelled or expired	(280,500)	$ 16.04	(214,375)	$ 14.86	(193,625)	$ 16.29
Outstanding at end of year	1,001,300	$ 11.58	1,410,250	$ 12.57	954,625	$ 15.98
Options exercisable at year end	588,802		750,250		832,125	
Weighted average fair value per option granted during the year	$ 10.69		$ 3.94		$ 4.44	

The total intrinsic value of options exercised was $1.3 million in 2017 and de minimis in 2016 and 2015.

The following table summarizes information about options vested and exercisable or nonvested that are expected to vest (nonvested outstanding less expected forfeitures) at December 31, 2017:

Range of Exercise Prices				Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in millions)
$	5.00	to	$ 10.00	505,738	$ 8.53	8.34	$ 12.5
$	10.01	to	$ 15.00	306,375	$ 13.00	2.63	6.2
$	15.01	to	$ 20.00	156,600	$ 18.32	4.47	2.3
$	20.01	to	$ 24.36	10,000	$ 24.36	9.61	0.1
$	5.00	to	$ 24.36	978,713	$ 11.66	5.94	$ 21.1

The aggregate intrinsic value in the tables above represents the total pretax intrinsic value (the difference between the closing stock price on the last day of trading in 2017 and the exercise price) that would have been received by the option holders had all options been exercised on December 31, 2017. This value will change based on the fair market value of the Company's common stock.

The following table reflects the activity for all unvested stock options during 2017:

	Shares	Weighted Average Grant-Date Fair Value
Unvested at January 1, 2017	660,000	$ 4.02
Granted	10,000	$ 10.69
Vested	(176,252)	$ 4.84
Forfeited	(81,250)	$ 3.21
Unvested at December 31, 2017	412,498	$ 4.93

At December 31, 2017, there was approximately $1.0 million of unrecognized compensation costs related to unvested stock options, which is expected to be recognized over a weighted average period of 2.4714611872 . The total fair value of stock options vested during 2017, 2016 and 2015 was $0.9 million, $0.6 million and $1.1 million, respectively.

Restricted Stock and Restricted Stock Units

In August 2010, the Company granted 175,000 RSUs under the 2010 Plan to a key employee who is also a Company director. These RSUs have none of the rights as other shares of common stock, other than rights to cash dividends, until common stock is distributed. This RSU award was a non-performance award which vests in ten equal annual installments of 17,500 units beginning May 15, 2011 and each May 15, thereafter. Compensation expense related to this RSU award was approximately $0.1 million in 2017 and 2016 and $0.2 million during 2015.

In November 2011, the Company granted 100,000 RSUs under the 2010 Plan to a key employee who is also a Company director. These RSUs have none of the rights as other shares of common stock, other than rights to cash dividends, until common stock is distributed. This RSU award was a non-performance award which vests in ten equal annual installments of 10,000 units beginning November 14, 2012 and each November 14 thereafter. Compensation expense related to this RSU award was approximately $0.1 million in 2017 and 2016 and $0.2 million, during 2015.

In January 2012 and March 2012, the Company granted 50,000 RSUs under the 2010 Plan to each of two key employees. These RSUs have none of the rights as other shares of common stock, other than rights to cash dividends, until common stock is distributed. These RSU awards were non-performance awards which vest in ten equal annual installments of 10,000 units beginning January 3, 2013 and March 1, 2013, respectively, and each January 3 and March 1, thereafter. The termination without cause of one of these key employees during 2015 caused the accelerated vesting of the remaining 35,000 shares in accordance with the restricted stock agreement with the Company. Compensation expense related to the remaining RSU award was approximately $0.1 million in 2017 and 2016 and combined compensation expense was approximately $0.4 million in 2015.

In July 2015, the Company granted 23,620 RSUs under the 2010 Plan to, at that time, a key employee. These RSU's had none of the rights as other shares of common stock, other than rights to cash dividends, until common stock is distributed. This RSU award was a non-performance award which was to vest in four equal annual installments of 5,905 units beginning July 6, 2015 and each July 6 thereafter. This key employee was terminated in the third quarter of 2016 and this award was forfeited. Compensation expense related to this RSU award was de minimis in 2016.

In February 2016, the Company granted 100,000 RSUs under the 2010 Plan to certain key employees, one of whom is also a Company director. These RSUs have none of the rights as other shares of common stock, other than rights to cash dividends, until common stock is distributed. The RSU awards were non-performance awards which vest in three annual installments beginning February 1, 2017. Compensation expense related to these RSU awards was approximately $0.2 million in 2017 and $0.5 million in 2016.

In October 2017 and November 2017, the Company granted 53,288 RSU's under the 2010 Plan to certain key employees. These RSUs have none of the rights as other shares of common stock, other than rights to cash dividends, until common stock is distributed. The RSU awarded in October 2017 was a non-performance award which vest in two installments: 1,844 units vested immediately and 1,844 units vest in April 2018. The RSU's granted in November 2017 of 49,600 units were performance awards which vest in up to three installments beginning December 2019. Combined compensation expense related to these performance and non-performance RSU awards was approximately $0.1 million during 2017.

Share-based compensation expense for restricted stock issued to Directors was $(0.1) million in 2017 due to the resignation of two Directors during the year and $0.1 million in each of 2016 and 2015. All of the above share-based compensation expense is recognized in selling, distribution and administrative expense in 2017, 2016 and 2015.

8. INCOME TAXES

On December 22, 2017, the Tax Cut and Jobs Act ("TCJA") was enacted in the United States. The TCJA significantly changes U.S. corporate tax impacts by, among other things, lowering the corporate tax rate to 21% from 35% effective January 1, 2018, implementing a territorial tax system and imposing a one-time repatriation tax on previously untaxed, accumulated earnings of foreign subsidiaries. As a result of the new tax law, the Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 118 ("SAB 118"). SAB 118 allows companies to record the tax impacts of the new law as provisional amounts during a measurement period of up to one year from the enactment date of the new law. The Company has recognized a provisional amount for the one-time repatriation tax of approximately $5.2 million and utilized its available net operating losses to offset this tax. The Company expects to complete its analysis of the historical earnings and profits of all of its foreign subsidiaries and record any adjustment to the provisional amount within the one year measurement period.

Deferred tax assets and liabilities are measured using enacted tax rates expected to be in place in the year in which they are expected to reverse. As a result of the reduction in the U.S. corporate income tax rate, the Company revalued its net deferred tax assets in the U.S. at December 31, 2017 and recorded tax expense of approximately $10.3 million. On December 31, 2017 the French Parliament adopted the Finance Law for 2018. Under this law, French corporate income tax rates are reduced from 33.33% to 25% over a five year period. As a result of the scheduled reductions in the French corporate income tax rate, the Company revalued its French net deferred tax assets at December 31, 2017 and recorded tax expense of approximately $0.5 million.

The Company will continue to analyze the impacts of the TCJA on its consolidated financial statements. Any additional impacts from the enactment of the TCJA will be recorded as they are identified during the measurement period.

The following table summarizes our U.S. and foreign components of income (loss) from continuing operations before income taxes (in millions):

	Year Ended December 31,		
	2017	2016	2015
United States	$ 47.8	$ 8.6	$ (22.3)
Foreign	23.0	17.5	10.6
Total	$ 70.8	$ 26.1	$ (11.7)

The following table summarizes the (benefit) provision for income taxes from continuing operations (in millions):

	Year Ended December 31,		
	2017	2016	2015
Current:			
Federal	$ 0.7	$ 0.1	$ 3.1
State	1.1	1.2	0.8
Foreign	10.7	3.8	4.1
Total current	$ 12.5	$ 5.1	$ 8.0
Deferred:			
Federal	$ (12.6)	$ —	$ 0.2
State	(3.6)	1.1	(0.2)
Foreign	(1.6)	3.0	4.3
Total deferred	$ (17.8)	$ 4.1	$ 4.3
TOTAL	$ (5.3)	$ 9.2	$ 12.3

Tax benefit (expense) from discontinued operations was $3.7 million, $(0.8) million and $2.1 million for the years ended December 31, 2017, 2016 and 2015, respectively. Income taxes are accrued and paid by each foreign entity in accordance with applicable local regulations.

A reconciliation of the difference between the income tax expense and the computed income tax expense based on the Federal statutory corporate rate is as follows (in millions):

	Year Ended December 31,					
	2017		2016		2015	
Income tax at Federal statutory rate	$ 24.8	35.0 %	$ 9.1	35.0 %	$ (4.1)	35.0 %
Foreign taxes at rates different from the U.S. rate	1.1	1.6 %	0.8	3.1 %	1.4	(12.0)%
State and local income taxes, net of federal tax benefit	5.0	7.1 %	(0.7)	(2.7)%	(1.4)	12.0 %
Impact of state rate changes	0.3	0.5 %	1.4	5.3 %	0.7	(6.0)%
Changes in valuation allowances	(21.7)	(30.7)%	(1.2)	(4.6)%	15.9	(135.8)%
Reversal of valuation allowances	(29.4)	(41.5)%	—	— %	—	— %
2017 TCJA, net deferred tax remeasurment and repatriation tax impacts	15.7	22.1 %	—	— %	—	— %
Non-deductible items	(0.4)	(0.6)%	(0.3)	(1.2)%	—	— %
Other items, net	(0.7)	(1.0)%	0.1	0.4 %	(0.2)	1.7 %
Income tax	$ (5.3)	(7.5)%	$ 9.2	35.3 %	$ 12.3	(105.1)%

The deferred tax assets and liabilities are comprised of the following (in millions):

	December 31,	
	2017	2016
Assets:		
Accrued expenses and other liabilities	$ 5.9	$ 12.1
Inventory	1.1	1.5
Depreciation	1.4	0.6
Intangible & other	8.1	13.2
Net operating loss and credit carryforwards	28.6	46.5
Valuation allowances	(18.9)	(69.7)
Total non-current deferred tax assets	26.2	4.2
Liabilities:		
Non-current:		
Other	$ 0.1	$ 0.3
Total non-current liabilities	$ 0.1	$ 0.3

During 2017 the Company utilized approximately $26.4 million of U.S. federal net operating losses to offset U.S. federal pretax income and in the fourth quarter of 2017 the Company reversed approximately $29.4 million of valuation allowances against its U.S. federal and certain state deferred tax assets as the Company determined that it was more likely than not that the deferred tax assets will be utilized. During the current year the Company recorded valuation allowances against deferred tax assets of approximately $0.6 million in jurisdictions where the Company has continued losses and the Company believes it is not more likely than not that the deferred tax assets will be utilized .

The Company has not provided for federal income taxes applicable to the undistributed earnings of its foreign subsidiary in India of approximately $1.4 million as of December 31, 2017, since these earnings are considered indefinitely reinvested. The Company has gross foreign net operating loss carryforwards of $33.9 million which expire through 2032 and gross U.S. federal net operating loss carry forwards of $35.9 million which expire through 2036. The Company records these benefits as assets to the extent that utilization of such assets is more likely than not; otherwise, a valuation allowance has been recorded. The Company has also provided valuation allowances for certain state deferred tax assets and net operating loss carryforwards where it is not likely they will be realized.

As of December 31, 2017, the Company has approximately $1.3 million in federal tax credit carryforwards expiring in years through 2026 and various amounts of state and foreign net operating loss carryforwards expiring through 2037. The Company has recorded valuation allowances of approximately $18.9 million, including valuations against state deductibility of temporary differences including net operating losses carryforwards of $7.4 million, foreign tax credits of $1.3 million and tax effected temporary differences and net operating loss carryforwards in foreign jurisdictions of $10.2 million.

The Company is routinely audited by federal, state and foreign tax authorities with respect to its income taxes. The Company regularly reviews and evaluates the likelihood of audit assessments. The Company's federal income tax returns have been audited through 2013. The Company has not signed any consent to extend the statute of limitations for any subsequent years. The Company's significant state tax returns have been audited through 2009. The Company considers its significant tax jurisdictions in foreign locations to be France and Canada. The Company remains subject to examination in France for years after 2013 and in Canada for years after 2013.

In accordance with the guidance for accounting for uncertainty in income taxes the Company recognizes the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefit of an uncertain tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount that is greater than 50% likely to be realized upon settlement with the tax authority. To the extent we prevail in matters for which accruals have been established or are required to pay amounts in excess of accruals, our effective tax rate in a given financial statement period could be affected. As of December 31, 2017, the Company had no uncertain tax positions. Interest and penalties, if any, are recorded in income tax expense. There were no accrued interests or penalty charges related to unrecognized tax benefits recorded in income tax expense in 2017, 2016 or 2015.

9. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

Leases - The Company is obligated under operating lease agreements for the rental of certain office and warehouse facilities and equipment which expire at various dates through August 2032. The Company currently leases its headquarters office/warehouse facility in New York from an entity owned by the Company's three principal shareholders and senior executive officers. The Company also acquires certain computer, communications equipment, and machinery and equipment pursuant to capital lease obligations.

At December 31, 2017, the future minimum annual lease payments for capital and third-party operating leases were as follows (in millions):

	Capital Leases	Operating Leases	Total
2018	$ 0.1	$ 20.9	$ 21.0
2019	0.1	15.5	15.6
2020	—	14.2	14.2
2021	—	10.9	10.9
2022	—	9.6	9.6
2023-2027	—	38.3	38.3
2028-2032	—	17.2	17.2
Thereafter	—	—	—
Total minimum lease payments	0.2	126.6	126.8
Less: sublease rental income	—	6.3	6.3
Lease obligation net of subleases	0.2	$ 120.3	$ 120.5
Less: amount representing interest	—		
Present value of minimum capital lease payments (including current portion of $0.2M)	$ 0.2		

Annual rent expense aggregated approximately $13.5 million, $17.7 million and $26.4 million in 2017, 2016 and 2015, respectively. Included in rent expense was $0.9 million in 2017, $0.9 million in 2016, $1.0 million in 2015, to related parties. Rent expense is net of sublease income of $0.4 million for 2017, $0.4 million for 2016, and $0.1 million for 2015, respectively. Discontinued ETG and NATG operations annual rent expense totaled approximately $0.8 million, $5.2 million and $14.2 million for 2017, 2016 and 2015, respectively.

The operating lease agreements generally provide for rental payments on a graduated basis and for options to renew, which could increase future minimum lease payments if exercised. The Company recognizes rent expense on a straight-line basis over the lease period and has accrued for rent expense incurred but not paid. Deferred rent represents the difference between actual operating lease payments due and straight-line rent expense. The excess is recorded as a deferred rent liability in the early periods of the lease, when cash payments are generally lower than straight-line rent expense, and are reduced in the later periods of the lease when payments begin to exceed the straight-line expense. The Company also accounts for leasehold improvement incentives within its deferred rent liability.

Other Matters

The Company and its subsidiaries are from time to time involved in various lawsuits, claims, investigations and proceedings which may include commercial, employment, customer, personal injury, creditors rights and health and safety law matters, as well as VAT tax disputes in European jurisdictions in which it has done business, and 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) numerous governmental agencies in various countries, including U.S. Federal and state authorities, concerning potential income tax, sales tax and unclaimed property liabilities. These matters are in various stages of investigation, negotiation and/or litigation. The Company is also being audited by an entity representing 21 states seeking recovery of "unclaimed property". The Company is complying with the unclaimed property audit and is providing requested information. The Company intends to vigorously defend these matters and believes it has strong defenses. In September 2017 the Company and certain subsidiaries comprising its former NATG "Tiger" consumer electronics business were sued in United States District Court, Northern District of California by a software publisher alleging that the NATG subsidiaries violated certain contractual sales channel restrictions resulting in claims of breach of contract and trademark/copyright infringement. The matter is at a very early stage and the Company is assessing the claims and its defenses; 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 December 31, 2017 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 December 31, 2017 any reasonably possible losses in excess of the amounts accrued would be material to the financial statements.

10. SEGMENT AND RELATED INFORMATION

The Company operates and is internally managed in two reportable business segments— IPG and ETG. Smaller business operations and corporate functions are aggregated and reported as the additional segment - Corporate . On March 24, 2017, the Company sold its SARL Businesses and its continuing ETG operations now only include those in France. Prior year comparatives will include France, and the divested German operations which was sold in September 2016.

On September 2, 2016 the Company sold certain assets of its Misco Germany operations which had been reported as part of its ETG segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-8, prior and current year results of the German operations are presented within continuing operations in the Consolidated Financial Statements. For the year ended December 31, 2016, net sales of Misco Germany included in continuing operations were $33.9 million and the net loss, including approximately $1.7 million of intercompany charges, was $6.4 million. The Company recorded special charges related to this transaction of approximately $1.7 million.

On December 31, 2016, the Company sold all of its issued and outstanding membership interests of its rebate processing business which had been reported as part of its Corporate segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-8, prior and current year results of the rebate processing business are presented within continuing operations in the consolidated financial statements. For the year ended December 31, 2016, net sales of the rebate processing business included in continuing operations were $3.6 million and the net loss was $2.3 million, including intercompany charges of $0.1 million. The Company recorded a gain of approximately $3.9 million on this sale.

The Company's chief operating decision-maker is the Company's Chief Executive Officer ("CEO"). The CEO, in his role as Chief Operating Decision Maker ("CODM"), evaluates segment performance based on operating income (loss) from continuing operations. The CODM reviews assets and makes significant capital expenditure decisions for the Company on a consolidated basis only. The accounting policies of the segments are the same as those of the Company. Corporate costs not identified with the disclosed segments are grouped as "Corporate and other expenses."

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

	Year Ended December 31,		
	2017	**2016**	**2015**
Net Sales:			
IPG	$ 791.8	$ 715.6	$ 698.6
ETG	473.6	451.1	441.7
NATG	—	—	97.8
Corporate and other	—	3.6	5.4
Consolidated	$ 1,265.4	$ 1,170.3	$ 1,243.5
Depreciation and Amortization Expense:			
IPG	$ 3.9	$ 3.6	$ 3.8
ETG	0.5	0.8	0.5
NATG	—	—	0.6
Corporate and other	0.7	0.9	1.0
Consolidated	$ 5.1	$ 5.3	$ 5.9
Operating Income (Loss):			
IPG	$ 69.6	$ 34.3	$ 43.7
ETG	24.5	14.5	13.0
NATG	(0.6)	(2.8)	(38.2)
Corporate and other expenses	(22.2)	(18.3)	(22.0)
Consolidated	$ 71.3	$ 27.7	$ (3.5)
Total Assets			
IPG	$ 220.4	$ 201.5	$ 203.8
ETG	188.0	165.2	140.5
ETG - discontinued	—	109.4	166.4
NATG	13.6	6.9	151.6
Corporate and other	129.4	83.1	47.8
Consolidated	$ 551.4	$ 566.1	$ 710.1

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

	Year Ended December 31,		
	2017	2016	2015
Net Sales:			
United States	$ 759.4	$ 692.3	$ 676.8
France	473.6	417.2	382.6
Other Europe	—	33.9	59.1
Other North America	32.4	26.9	125.0
Consolidated	$ 1,265.4	$ 1,170.3	$ 1,243.5
Long-lived Assets:			
United States	$ 13.9	$ 15.4	$ 18.1
France	1.2	1.0	1.1
Other Europe and Asia	—	—	0.1
Consolidated	$ 15.1	$ 16.4	$ 19.3

Net sales are attributed to countries based on location of selling subsidiary.

11. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data, excluding discontinued operations, is as follows (in millions, except for per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017				
Net sales	$ 302.5	$ 313.0	$ 319.3	$ 330.6
Gross profit	$ 81.8	$ 91.5	$ 89.6	$ 88.5
Net income from continuing operations	$ 10.3	$ 19.3	$ 14.1	$ 32.4
Net income per common share from continuing operations:				
Basic	$ 0.29	$ 0.52	$ 0.38	$ 0.87
Diluted	$ 0.28	$ 0.52	$ 0.37	$ 0.85
2016				
Net sales	$ 286.8	$ 297.7	$ 290.2	$ 295.6
Gross profit	$ 75.9	$ 78.0	$ 75.7	$ 78.3
Net income from continuing operations	$ 1.5	$ 2.3	$ 1.6	$ 11.5
Net income per common share from continuing operations:				
Basic	$ 0.04	$ 0.06	$ 0.04	$ 0.31
Diluted	$ 0.04	$ 0.06	$ 0.04	$ 0.31

SYSTEMAX INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the years ended December:
(in millions)

Description	Balance at Beginning of Period	Charged to Expenses	Write-offs	Other	Balance at End of Period
Allowance for doubtful accounts					
2017	$ 10.0	$ 1.3	$ (9.2)	$ —	$ 2.1 [1]
2016	$ 7.2	$ 3.6	$ (0.8)	$ —	$ 10.0 [2]
2015	$ 3.7	$ 6.7	$ (3.4)	$ 0.2	$ 7.2
Allowance for sales returns					
2017	$ 1.6	$ 1.8	$ —	$ (1.6) [3]	$ 1.8
2016	$ 3.5	$ 1.6	$ —	$ (3.5) [3]	$ 1.6
2015	$ 7.8	$ 3.5	$ —	$ (7.8) [3]	$ 3.5
Allowance for inventory returns					
2017	$ (0.8)	$ (0.9)	$ —	$ 0.8 [3]	$ (0.9)
2016	$ (2.7)	$ (0.8)	$ —	$ 2.7 [3]	$ (0.8)
2015	$ (6.4)	$ (2.7)	$ —	$ 6.4 [3]	$ (2.7)
Allowance for deferred tax assets					
2017	$ 69.7	$ (28.6)	$ (3.0)	$ (19.2)	$ 18.9
2016	$ 64.0	$ 6.0	$ (1.9)	$ 1.6	$ 69.7
2015	$ 35.8	$ 28.6	$ —	$ (0.4)	$ 64.0

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(1) Excludes approximately $0.4 million of reserves related to non-trade receivables.
(2) Excludes approximately $5.6 million of reserves related to notes receivable and tax refund receivables.
(3) Amounts represent gross revenue and cost reversals to the estimated sales returns and allowances accounts.

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Section 2: EX-14 (EXHIBIT 14)

Exhibit 14

CORPORATE ETHICS POLICY
(Revised February 2018)

The Corporate Ethics Policy of Systemax Inc. (the "Company") was prepared to provide the directors, officers, employees and other representatives of the Company and its subsidiaries (collectively “Company Representatives”) as well as the Company’s shareholders, customers, suppliers and the general public with a statement of the Company’s commitment to ethical business conduct. This Corporate Ethics Policy applies to the Company and all of its subsidiaries on a worldwide basis. The Company is committed to acting as a responsible and ethical corporate world citizen. Company Representatives will conduct Company business with the highest regard for the Company’s ethical and legal obligations and with the utmost loyalty to its shareholders and customers. It is the duty of all Company Representatives to see that these policies are followed. Every Company Representative is expected to comply with these policies. Failure to do so may not only harm the Company and your fellow employees, it will subject you to disciplinary action, including termination of employment under appropriate circumstances.

Summary of Duties for All Company Representatives:

- Avoid conflicts of interest and potential conflicts of interest between you and the Company.
- Do not offer or make gifts to customers (unless not of excessive value and unless for a business purpose of the Company). Cash or cash equivalent gifts of any value are absolutely prohibited.
- Do not offer or make gifts or payments to or otherwise attempt to bribe or unfairly influence a government official.
- Do not accept gifts or other personal payments from suppliers, service providers, customers or competitors (unless not of excessive value). Cash or cash equivalent gifts of any value are absolutely prohibited.
- Do not compete with the Company or take personal advantage of Company business opportunities, or have significant interests in companies the Company does business with.
- Do not waste, misappropriate or misuse Company assets.
- Keep all non-public Company information confidential.
- Deal with all customers, suppliers and competitors fairly.
- Comply with all laws and government regulations in all countries where the Company does business including laws against non-competitive practices (antitrust laws), insider stock trading, employment discrimination, bribery and other foreign corrupt practices, workplace safety laws and export/customs laws.
- Disclose and record accurately any use of Company funds.
- Do not falsify, inflate or disguise any accounting record or other business records of the Company.
- Report all violations of law and/or Company Ethics Policy to appropriate Company officials (see Section 11 below) or to the Company’s Anonymous Complaint Hotline (see Section 12 below).

Policies:

1. Loyalty to the Company and its Shareholders:

Company Representatives owe a duty of loyalty to the Company and to its shareholders. The duty of loyalty includes both a duty to protect the interests of the Company and an obligation to refrain from business conduct that would injure the Company and its shareholders.

2. Conflicts of Interest:

Company Representatives are required to avoid conflicts of interest, appearances of conflicts of interest and potential conflicts of interest. A "conflict of interest" occurs when an individual's private interest interferes in any way – or even appears to interfere - with the interests of the Company. A conflict situation can arise when a Company Representative takes actions or has interests that may make it difficult to perform his or her Company work objectively and effectively. Conflicts of interest also arise when a Company Representative, or a member of his or her family, receives improper personal benefits as a result of his or her position in the Company or has a personal interest in a transaction involving the Company (beyond merely being a Company Representative). Company Representatives shall not allow any consideration such as the receipt of gifts or financial interests in other businesses or personal or family relationships to interfere with the independent exercise of his or her business judgment and work activities to the benefit of the Company. Company Representatives should not have significant ownership interests in, or positions with, or financial or other involvements with, the Company's vendors, customers, or other third parties doing business with the Company, without prior written disclosure to the Company and approval by the Company's Board of Directors or a Committee of the Board. Company Representatives shall have no more than a one percent (1%) ownership interest in any public company that directly competes with the Company. Loans to, or guarantees of obligations of, Company Representatives are prohibited unless permitted by law and authorized by the Board of Directors or a Committee designated by the Board. If a Company Representative becomes aware of a potential conflict of interest he or she must communicate such potential conflict of interest to the Company.

3. Gifts, Vendor Incentive Programs and Relationships with Customers, Suppliers and Service Providers:

A "gift" includes any tangible and intangible payment or gratuity such as cash, gift cards, products, meals, event tickets or other entertainment, travel fare or hotel lodging, or participation in or tickets to hospitality programs, vendor sponsored events or conferences (including if paid for by a vendor or through MDF monies) ("Hospitality Events"). A gift, which is by itself not of "excessive value" may be, when aggregated with other gifts from the same source, a gift that is of excessive value.

No gift, gratuity, incentive payment or award, or personal property, rebates or points awarded towards the entitlement to any of the foregoing (an "Incentive Award") may be offered or provided to any corporate or individual customer or potential customer unless the gift or Incentive Award is not cash or cash equivalent and also not of excessive value and is made for business purposes of the Company. No gift gratuity, incentive payment or award or Incentive Award of any value may be offered or made to any government customer, government official or individual agent of a government customer. No gift, gratuity, incentive payment or award whether in the form of cash or cash equivalent or Incentive Award may be specifically offered or provided to any purchasing agent or other employee of any corporate or government customer (a "Purchasing Agent") without the knowledge of such customer's management. The solicitation of gifts or Incentive Award of any type by an employee is prohibited. If a gift or Incentive Award is offered to an employee, it must be considered separately depending on whether such gift is (a) cash or cash equivalent or (b) non-cash (including products, travel, entertainment, Hospitality Events, meals, personal services, etc.) The receipt of cash or cash equivalent gifts of any value is absolutely prohibited and must be refused by the employee or immediately surrendered to Eric Lerner, the Company's Chief Compliance Officer. The receipt of a non-cash gift is permitted only if (a) the gift is not of excessive value, (b) the gift cannot be construed as a bribe, payoff or improper inducement and (c) the gift is for a business purpose of the Company. Non-cash gifts under vendor incentive programs are only permitted if made pursuant to approved marketing programs with the Company's vendors, and otherwise pursuant to this Vendor Incentive Program and Product Sample Policy. Hospitality Events also must be approved pursuant to the Vendor Incentive Program Policy. In considering whether a non-cash gift is of "excessive value" the Company will consider, among other things, the value of the non-cash gift as well as the job responsibilities and annual compensation of the gift recipient.

Any gift offered or received (for any amount) must be reported to an employee's supervisor. In some circumstances, such person may be required to return the gift with a letter explaining Company policy or, if a gift is perishable or impractical to return, such person may be required to distribute it to employees or donate it to charity, with a letter of explanation to the donor. Any gift offered or received that is greater than $100 in value must be reported to Eric Lerner, the Company's Chief Compliance Officer.

No gift, friendship, or other non-business aspect of any relationship with any customer or supplier should affect a Company Representative's obligation to deal with all customers, prospective customers and suppliers in a manner consistent with the best interests of the Company. Neither a Company Representative nor any member of his/her family may have any financial or economic involvement with the Company or with any customer or supplier of the Company (such as employment or an employment agreement, a business venture, a consulting or service agreement, or an investment other than the ownership of the stock of a publicly traded company) without prior written disclosure to the Company and approval by the Company's Board of Directors or a Committee of the Board. Company managers are prohibited from accepting gifts from subordinate employees unless not of excessive value.
Company managers are prohibited from accepting gifts from subordinate employees unless not of excessive value.

4. Corporate Opportunities:

Company Representatives are prohibited from (a) taking for themselves personally opportunities that are discovered through the use of Company property, information or position; (b) using Company property, information, or position for personal gain; and (c) competing with the Company. Company Representatives owe a duty to the Company to advance its legitimate interests when the opportunity to do so arises.

1. Protection and Proper Use of Company Assets:

Company Representatives must guard against any misappropriation, misuse or waste of the Company's assets or corporate opportunities. This includes, but is not limited to, trade secrets, intellectual property rights such as trademarks and patents, product sourcing information, strategic plans, etc. Company Representatives will refrain from the use of Company property for personal use other than on an incidental basis. Company Representatives will comply with internal controls and procedures of the Company that are intended to allow for better management and protection of the Company's assets. All Company Representatives should protect the Company's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. All Company assets should be used for legitimate business purposes.

2. Confidentiality:

Company Representatives must maintain the confidentiality of information entrusted to them by the Company, its suppliers or its customers, except when disclosure is authorized or legally mandated. Confidential information includes all non-public information that might be of use to competitors or harmful to the Company or its customers if disclosed.

3. Fair Treatment of Fellow Employees:

Company Representatives will not discriminate against any Company employee or potential employee on the basis of race, color, religion, sex, national origin, age, handicap, veteran status, marital status or sexual preference. Company Representatives will be sensitive to the rights of all employees to work in an environment free from all aspects of illegal discrimination, including an environment free from all forms of illegal harassment.

4. Fair Dealing:

Company Representatives should endeavor to deal fairly and honestly with the Company's customers, suppliers, competitors and employees and should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice. Company Representatives shall not knowingly engage in conduct that results in the Company using any trade secrets, copyrights, trademarks, patents or other proprietary or confidential information belonging to a competitor.

5. Compliance with Applicable Laws and Regulations of Governmental Bodies and Agencies:

The Company and all Company Representatives shall fully comply with all applicable laws and regulations, including securities laws (which require fair disclosure of the Company's business and financial information to the public and prohibit any use of inside information about the Company in deciding to buy or sell stock of the Company, among other things), antitrust laws (which establish standards for dealing fairly with competitors, suppliers and customers), laws regarding safety in the workplace, laws relating to the preservation of the environment, laws protecting employees and prospective employees from discrimination or sexual harassment, customs laws, including country of origin marking and value laws, and other laws regulating products as well as laws prohibiting corrupt practices such as payments to public officials or improper political activities.

While the Company encourages its employees to participate in the political process, they are cautioned not to create the impression that they speak or act on behalf of the Company. Certain U.S. and foreign laws prohibit the Company from contributing to political candidates of parties or party officials except under limited conditions. The numerous applications of domestic and international laws to the activities of the Company cannot be set forth fully here, but all Company Representatives should be sensitive to the ongoing need to assure appropriate consideration of any activity that might violate any such laws. Clarification of these matters can be obtained by contacting the Company's General Counsel.

Foreign Corrupt Practices Act

Many countries have laws or rules prohibiting gifts to people who are employed by the government of that country. In addition the U.S. Foreign Corrupt Practices Act prohibits the Company or any Company Representative from making a payment or giving anything of value to a foreign official or political party for the purpose of obtaining or retaining business. This provision also applies to payments or offers of anything of value to intermediaries, sales representatives or agents if the Company Representative knows, or has reason to know, that the payment or offer will be used for a prohibited payment, gift or favor. Company Representatives must obey these laws.

Export Control Laws and Regulations

It is the Company's policy to comply with the export control laws and regulations of all countries in which the Company does business. Compliance with these laws and regulations may result in some loss of business opportunities but a failure to comply may result in fines and penalties and loss of exporting privileges. U.S. customs law prohibits the shipment of goods to certain countries as well as to certain designated individuals and entities while shipment (including re-export) to some other countries, persons, and/or entities requires U.S. Government license application and approval. Consult these websites for further information:

http://www.pmddtc.state.gov/embargoed_countries/index.html;

http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx.

6. Maintenance of Accurate and Complete Books and Records; Financial Reporting:

Every Company Representative has an obligation to maintain accurate and complete books and records in accordance with the Company's Standard Accounting Policies. No false or misleading entries may be made on the Company's books and records and no documents shall be signed without proper authorization. No funds or assets may be used or maintained by the Company for any illegal purpose. All transactions shall be fully and completely documented and recorded in the Company's accounting records. All labor, travel, material and other expenses should be recorded truthfully. A variety of U.S. and foreign laws govern the accurate and complete entry of accounting and financial information. The Company and Company Representatives are to maintain all such financial records in an accurate and complete manner in accordance with such laws.

Company Representatives shall take all reasonable action within the scope of their responsibilities to promote full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with the Securities and Exchange Commission, the New York Stock Exchange or any other applicable regulatory body or in other public communications made by the Company. Company Representatives shall not knowingly misrepresent or conceal with an intent to mislead, or cause others to misrepresent or conceal with an intent to mislead, material facts concerning the Company.

In connection with Company's financial disclosures, Company Representatives shall take reasonable action within the scope of their responsibilities designed to cause the Company, and/or to require its personnel, as appropriate, to comply with generally accepted accounting principles and the rules and regulations of the SEC concerning financial and accounting matters; maintain books and records that accurately and fairly reflect the transactions, assets and liabilities of the Company, as required by applicable law; refrain from any financial or accounting practices or public financial disclosure that, while in technical compliance with generally accepted accounting principles and applicable law, are intended to present a misleading picture of the Company's financial condition or results of operations or trends relating to these items; promptly report to the Audit Committee any significant or material deficiencies or weaknesses in the design or operation of the Company's internal controls over financial reporting; promptly report to the Company's internal audit department or the Audit Committee any information indicating that a material violation of generally accepted accounting principles or any illegal financial or accounting practices has or may have occurred; cooperate fully with the Company's internal audit department, independent auditors, internal legal staff, outside legal advisors or any governmental authority in any investigation regarding possible wrongdoing related to the Company's financial and accounting disclosure; and refrain from improperly influencing or attempting to coerce, manipulate, mislead or fraudulently influence the activities of the internal audit department or any audit conducted by the Company's independent auditors.

Procedures in the Event of a Legal or Policy Violation or Concern:

Company Representatives must promptly report violations of laws, rules, regulations or the Corporate Ethics Policy to appropriate personnel as indicated below. The Company will not allow retaliation for reports made in good faith. Any Company Representative who is charged with a felony or other serious crime, and any Company Representative who learns that another Company Representative has been charged with a felony or other serious crime, must immediately inform the local Human Resources Department. The local Human Resources Department, upon being advised of this information, must immediately inform the Company's Legal Department at the Company's headquarters in Port Washington, New York.

In addition, all Company Representatives have an obligation to discuss any concern they have with regard to the application of these policies to any conduct in which they participate, are asked to participate, or become aware of. Normally, such concerns should be brought to the attention of the immediate supervisor of the Company Representative. The Company is aware that in certain situations it may be unrealistic to discuss concerns with a supervisor and encourages any Company Representative to contact any of the following in such circumstances (all of whom can be reached through contacting the Company's headquarters in Port Washington, New York).

Richard Leeds - Executive Chairman

Larry Reinhold - President and Chief Executive Officer

Eric Lerner - Senior Vice President and General Counsel

Robert D. Rosenthal - Chair of the Nominating and Corporate Governance Committee of the Board of Directors

Nothing in this Corporate Ethics Policy prohibits Company Representatives from reporting possible violations of law to any governmental agency or entity or making other disclosures that are protected under the whistleblower provisions of federal, state, or local laws or regulations, nor is this Policy intended to restrict communications or actions protected or required by state or federal law, such as communications regarding terms and conditions of employment, union and labor matters and similar circumstances. Complaints may be made anonymously by contacting the Anonymous Complaint Hotline as described below.

Anonymous Complaint Hotline:

The Company has implemented an anonymous reporting system to receive and address complaints regarding improper or questionable accounting and other business practices. Examples of improper accounting practices include improper recording of sales transactions, inventory, accounts receivable, accounts payable or other revenue, expense or asset items. The Company's Audit Committee of the Board of Directors oversees the investigation of complaints regarding improper accounting practices. Examples of other improper business practices include employment discrimination, theft of Company property (including inventory), undisclosed conflicts of interest, insider trading, safety violations and other violations of law and/or this Corporate Ethics Policy. The Company has set up an anonymous Telephone Hotline to receive all such complaints. In order to maintain complete anonymity for callers, the Company is utilizing the services of an independent company called Ethicspoint, to administer the hotline.

The system is easy to use. Simply phone the 24 hour toll-free Hotline Number:

866-292-1177 (U.S., Canada, and India)
0800-902500 (France)

An Ethicspoint compliance specialist will guide you through the questions to complete the report. The reports will be available only to specific individuals in the Company who are charged with evaluating and, when appropriate, investigating the violation. The system is designed so that no report is ever shared with implicated parties.

The Company believes this hotline will be an effective tool in reducing losses from improper accounting, fraud, theft and other illegal and/or unethical practices and therefore help to protect the Company's reputation and financial strength. If you are uncertain if a practice violates Company policy or is illegal, please call the hotline. The Company would rather be informed of a potential problem than let it go unchecked. Should you have any questions regarding the anonymous reporting procedures or the hotline, you may contact Eric Lerner, the Company's Senior Vice President and General Counsel.

7.Exceptions in Particular Cases; Waiver.

In certain very limited circumstances, the Company, acting through the Board of Directors' Corporate Governance Committee and after being provided with full and complete information as to the circumstances, upon the request of a Company Representative, may permit an activity otherwise restricted under this Policy (other than an activity that would constitute illegal conduct). In such cases, prior written disclosure of the matter shall be made to one of the persons identified in Section 11 above for further consideration by the Corporate Governance Committee as to whether such activity should be permitted. In the event that such waiver is requested by a director or executive officer of the Company, such waiver may be granted only by the Board, and must be promptly disclosed to shareholders.

8.Importance of Compliance with These Policies:

It is the duty of all Company Representatives to see that these policies are followed. Every Company Representative is expected to comply with the policies set forth above. Failure to do so may not only harm the Company and your fellow employees, it will subject you to disciplinary action, including termination of employment under appropriate circumstances.

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Section 3: EX-21 (EXHIBIT 21)

SUBSIDIARIES OF SYSTEMAX INC. **Exhibit 21**

Company Name	Jurisdiction
Avenue Industrial Supply Company Limited	Canada
C&H Distribution Holdings Inc.	USA (DE)
C&H Distributors, LLC	USA (DE)

Global Equipment Company Inc.	USA (NY)
Global Industrial Distribution Inc.	USA (DE)
Global Industrial Holdings LLC	USA (DE)
Global Industrial Services Inc.	USA (DE)
Industrialsupplies.Com, LLC	USA (DE)
InMac WStore SAS	France
Misco Germany Inc.	USA (NY)
Nexel Industries, Inc.	USA (NY)
Systemax Global Solutions Inc.	USA (NY)

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Section 4: EX-23 (EXHIBIT 23)

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-111618) pertaining to the 1999 Long-Term Stock Incentive Plan, and
(2) Registration Statement (Form S-8 No. 333-176264) pertaining to the 2010 Long-Term Stock Incentive Plan;

of our reports dated March 15, 2018, with respect to the consolidated financial statements and schedule of Systemax Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Systemax Inc. and subsidiaries included in this Annual Report (Form 10-K) of Systemax Inc. and subsidiaries for the year ended December 31, 2017.

/s/ Ernst & Young LLP

New York, New York

March 15, 2018

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Section 5: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Lawrence Reinhold, certify that:

1. I have reviewed this annual report on Form 10-K of Systemax Inc. (the "registrant");

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 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.

5. The registrant's other certifying officer 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: March 15, 2018

/s/ LAWRENCE REINHOLD

Lawrence Reinhold, Chief Executive Officer

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Section 6: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas Clark, certify that:

1. I have reviewed this annual report on Form 10-K of Systemax Inc. (the “registrant”);

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 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.

5. The registrant’s other certifying officer 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 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: March 15, 2018

/s/ THOMAS CLARK

Thomas Clark, Chief Financial Officer

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Section 7: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION UNDER 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-K for the year ended December 31, 2017 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 78 (o)(d)) and that the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Systemax Inc.

Dated: March 15, 2018

/s/ LAWRENCE REINHOLD

Lawrence Reinhold, Chief Executive Officer

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Section 8: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION UNDER 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-K for the year ended December 31, 2017 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 78 (o)(d)) and that the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Systemax Inc.

Dated: March 15, 2018

/s/ THOMAS CLARK

Thomas Clark, Chief Financial Officer

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