SYSTEMAX INC
Form 10-K
March 18, 2009
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number:

1-13792

Systemax Inc.

(Exact name of registrant as specified in its charter)

Delaware	**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 o No x

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 o No x

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 x No o

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. x

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2008, which is the last business day of the registrant s most recently completed second fiscal quarter, was approximately $148,811,545. 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 6, 2009 was 36,223,720 shares.

Documents incorporated by reference: Portions of the Proxy Statement of Systemax Inc. relating to the 2008 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. Forward looking statements may include, but are not limited to, projections of revenue, income or loss and capital expenditures, statements regarding future operations, financing needs, compliance with financial covenants in loan agreements, plans for acquisition or sale of assets or businesses and consolidation of operations of newly acquired businesses, and plans relating to products or services of the Company, assessments of materiality, predictions of future events and the effects of pending and possible litigation, as well as assumptions relating to the foregoing. In addition, when used in this 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:

- the effect on us of volatility in the price of paper and periodic increases in postage rates
- significant changes in the computer products retail industry, especially relating to the distribution and sale of such products
- timely availability of existing and new products
- 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 us
- risks associated with delivery of merchandise to customers by utilizing common delivery services

- borrowing costs or availability
- pending or threatened litigation and investigations
- the availability of key personnel

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.

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Item 1. Business.

General

Systemax is primarily a direct marketer of brand name and private label products. Our operations are organized in three reportable business segments Technology Products, Industrial Products and Software Solutions. Our Technology Products segment sells computers, computer supplies and consumer electronics which are marketed in North America and Europe. Except for certain personal computer (PC) products that we assemble ourselves and sell under the trademarks *Systemax* and *Ultra* , substantially all of our products are manufactured by other companies. We also sell certain computer-related products manufactured for us to our own design under the trademark *Systemax* and *Ultra* . Technology Products accounted for 92% of our net sales in 2008.

Our Industrial Products segment sells a wide array of material handling equipment, storage equipment and consumable industrial items which are marketed in North America. Substantially all of these products are manufactured by other companies. Some products are manufactured for us to our own design and marketed under the trademarks *Global* , *GlobalIndustrial.com* and *Nexel* . Industrial products accounted for 8% of our net sales in 2008.

Our Software Solutions segment participates in the emerging market for on-demand, web-based business software applications through the marketing of our PCS ProfitCenter Software application. See Note 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.

The Company was incorporated in Delaware in 1995. Certain predecessor businesses which now constitute part of the Company have been in business since 1955. Our headquarter office is located at 11 Harbor Park Drive, Port Washington, New York.

Recent Developments

On January 5, 2008 the Company entered into an asset purchase agreement with CompUSA Inc. Under the agreement the Company acquired CompUSA s e-commerce business and 16 of its retail leases and related fixtures for consideration of approximately $30.6 million. This acquisition accelerated the Company s planned expansion into the retail market place in North America and Puerto Rico.

Products

We offer more than 100,000 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.

Our computer sales include desktops, laptops and notebooks and are primarily offerings of brand name original equipment manufacturers, as well as our own Systemax and Ultra brands. Computer supplies and consumer electronics related products include supplies such as laser printer toner cartridges and ink jet printer cartridges; media such as flash memory, recordable disks and magnetic tape cartridges; peripherals such as hard disks, CD-ROM and DVD drives, printers and scanners; memory upgrades; data communication and networking equipment; monitors; digital cameras; plasma and LCD TVs; MP3 and DVD players; PDAs; and packaged software.

We assemble our Systemax and Ultra brand PCs in our 297,000 square foot, ISO-9001:2000 certified facility in Fletcher, Ohio. We purchase components and subassemblies from suppliers in the United States as well as overseas. Certain parts and components for our PCs are obtained from a limited group of suppliers. We also utilize licensed technology and computer software in the assembly of our PCs. For a discussion of risks associated with these licenses and suppliers, see Item 1A, Risk Factors.

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Our industrial products include storage equipment such as wire and metal shelving, bins and lockers; light material handling equipment such as hand carts, pallet jacks and hand trucks; ladders, furniture, small office machines and related supplies; and consumable industrial products such as first aid items, safety items, protective clothing and OSHA compliance items.

We began to market our PCS ProfitCenter Software suite of business applications in 2004. PCS ProfitCenter Software is a web-based application which is delivered as an on-demand service over the internet. The product helps companies automate and manage their entire customer life-cycle across multiple sales channels (internet, call centers, outside salespersons, etc.).

Sales and Marketing

We market our products to both business customers and individual consumers. Our business customers include for-profit businesses, educational organizations and government entities. We have developed numerous proprietary customer and prospect databases. We consider our business customers to include the various individuals who work within an organization rather than just the business itself.

We have established a multi-faceted direct marketing system to business customers, consisting primarily of relationship marketers, catalog mailings and proprietary internet websites, the combination of which is designed to maximize sales. 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 of historical purchasing patterns, 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 frequent catalog mailings and e-mail campaigns, both of which are designed to generate inbound telephone sales, and 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 catalog mailings and email campaigns which feature our websites results in greater internet-related sales.

We continue to have strong growth in sales to individual consumers, particularly through e-commerce means. To reach our individual consumer audience, we use online methods such as website campaigns, banner ads and e-mail campaigns. We are able to monitor and evaluate the results of our various advertising campaigns to enable us to execute them in the most cost-effective manner. We combine our use of e-commerce initiatives with catalog mailings, which generate online orders and calls to inbound sales representatives. These sales representatives use our information systems to fulfill orders and explore additional customer product needs. Sales to individual consumers are generally fulfilled from our own stock, requiring us to carry more inventory than we would for our business customers. We also periodically take advantage of attractive product pricing by making opportunistic bulk inventory purchases with the objective of turning them quickly into sales. We have also successfully increased our sales to individual consumers by using retail outlet stores. As of December 31, 2008 we had 29 retail locations open in North America and Puerto Rico.

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E-commerce

The worldwide growth in active internet users has made e-commerce a significant opportunity for sales growth.

The increase in our internet-related sales enables us to leverage our advertising spending. We currently operate multiple e-commerce sites, including:

Technology Products:

- www.tigerdirect.com
- www.compusa.com
- www.compusagoved.com
- www.compusabusiness.com
- www.misco.co.uk
- www.tigerdirect.ca
- www.misco.de
- www.misco.fr
- www.infotelusa.com
- www.misco.nl
- www.globalcomputer.com
- www.misco.it
- www.misco.es
- www.globalgoved.com
- www.misco.se
- www.systemaxpc.com
- www.misco.at

- www.misco.ch
- www.misco.be
- www.misco.pt
- www.misco.ie

Industrial Products:

- www.globalindustrial.com

We continually upgrade the capabilities and performance of these web sites. Our internet sites feature on-line catalogs of thousands of products, allowing us to offer a wider variety of computer and industrial products than our printed catalogs. Our customers have around-the-clock, on-line access to purchase products and we have the ability to create targeted promotions for our customers   interests. Many of our internet sites also permit customers to purchase   build to order   PCs configured to their own specifications.

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

Catalogs

We currently produce a total of 16 full-line and targeted specialty catalogs in North America and Europe under distinct titles. Our portfolio of catalogs includes such established brand names as *TigerDirect.com , Global Computer Supplies , CompUSA, TigerDirect.ca , Misco®, Global*

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Industrial , ArrowStar and Nexel . Full-line computer product catalogs offer products such as PCs, notebooks, peripherals, computer components, magnetic media, data communication, networking and power protection equipment, ergonomic accessories, furniture and software. Full-line industrial product catalogs offer products such as material handling products and industrial supplies. Specialty catalogs contain more focused product offerings and are targeted to individuals most likely to purchase from such catalogs. We mail catalogs to both businesses and individual consumers. In the case of business mailings, we mail our catalogs to many individuals at a single business location, providing us with multiple points-of-entry. Our in-house staff designs all of our catalogs. In-house catalog design helps reduce overall catalog expense and shortens catalog production time. This allows us the flexibility to alter our product offerings and pricing and to refine our catalog formats more quickly. Our catalogs are printed by third parties under fixed pricing arrangements. The commonality of certain core pages of our catalogs also allows for economies of scale in catalog production.

With the CompUSA acquisition, the distribution of our catalogs increased to 63 million in 2008, which was 9.5% more than in the prior year. In 2008, we mailed approximately 47 million catalogs in North America, a 16.2% increase from last year and approximately 16 million catalogs, or 6.5% fewer than 2007, were distributed in Europe.

Customer Service, Order Fulfillment and Support

We generally provide toll-free telephone number access for our customers. Certain of our domestic call centers are linked to provide telephone backup in the event of a disruption in phone service. In addition to telephone orders, we also receive orders by mail, fax, electronic data interchange and through the internet.

A large number of our products are carried in stock, and orders for such products are fulfilled on a timely basis directly from our distribution centers, typically on the day the order is received. We operate out of multiple sales and distribution facilities in North America and Europe. The locations of our distribution centers enable us to provide our customers next day or second day delivery. Orders are generally shipped by third-party delivery services in the United States and in Europe. The locations of our distribution centers in Europe have enabled us to market into additional countries with limited incremental investment. We maintain relationships with a number of large distributors in North America and Europe that also deliver products directly to our customers.

We provide extensive technical telephone support to our Systemax and Ultra brand PC 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 manufacturers and large wholesale distributors. One vendor accounted for 12.0%, 14.4% and 12.8% of our purchases in 2008, 2007 and 2006, respectively. The loss of this vendor, or any other key vendors, could have a material adverse effect on us.

Certain private label products are manufactured by third-parties to our specifications. Many of these private label products have been designed or developed by our in-house product design and development teams.

Competition and Other Market Factors

Technology Products

The North American and European technology product markets are highly competitive, with many U.S., Asian and European companies vying for market share. There are few barriers of entry, with these

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products being sold through multiple channels of distribution, including direct marketers, local and national retail computer stores, computer resellers, mass merchants, over the internet and by computer and office supply superstores. In North America, our major competitors operate in all these sales channels; in Europe, our major competitors are regional or country-specific retail and direct-mail distribution companies and internet-based resellers.

Timely introduction of new products or product features 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. Additionally, our results could also be adversely affected should we be unable to maintain our technological and marketing arrangements with other companies, such as Microsoft®, Intel® and Advanced Micro Devices®.

With conditions in the market for technology products remaining highly competitive, continued reductions in retail prices may 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.

Current economic conditions raise additional factors as the loss of consumer confidence in the Company s markets could result in a decrease of spending in the categories of products we sell. It is also possible that as manufacturers react to the marketplace they may reduce manufacturing capacity and create shortages of product.

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 retail outlets, small dealerships, direct mail distribution, internet-based resellers and large warehouse stores. We also face competition from manufacturers own sales representatives, who sell industrial equipment directly to customers, and from regional or local distributors. Many high volume purchasers, however, utilize catalog distributors as their first source of product. 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 catalog, the internet and sales representatives is an effective and convenient distribution method 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, it is well suited to private label products.

Software Solutions

Software Solutions offers a software application for the multi-channel commerce industry. The software distribution model in which a software application is hosted by a software vendor or a service provider and made available to customers over the internet is also known as software as a service (SaaS). Traditional software licensing is being supplemented with on-demand delivery models that increase the predictability of information technology financial expenditures while making it easier for multi-channel commerce companies to manage their customers, products and services regardless of sales channel.

The increasing replacement of obsolete software solutions by multi-channel retailers for newer technologies provides our Software Solutions business with an opportunity to market its products and services. The advantages of having a single solution, single database to manage all sales channels (eCommerce, call center, catalog, mail order, retail) with web-based accessibility and faster implementation cycles is anticipated to fuel penetration into the multi-channel software market space.

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Employees

As of December 31, 2008, we employed a total of 4,452 employees, of whom 3,251 were in North America and 1,201 were in Europe.

Seasonality

Net sales have historically been modestly weaker during the second and third quarters as a result of lower business activity during those months. See Item 7, Management s Discussions and Analysis of Financial Condition and Results of Operations; Seasonality.

Environmental Matters

Under various national, state and local environmental laws and regulations in North America and Europe, 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 conduct our business in North America (the United States, Puerto Rico and Canada) and Europe. Approximately 37.9% of our net sales during 2008 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 operations in those two geographic markets (in thousands):

		North America		**Europe**		**Total**
2008						
Net sales	$	2,092,372	$	940,589	$	3,032,961
Operating income	$	62,268	$	21,099	$	83,367
Identifiable assets	$	553,263	$	150,000	$	703,263
2007						
Net sales	$	1,847,477	$	932,398	$	2,779,875
Operating income	$	82,365	$	11,577	$	93,942
Identifiable assets	$	488,761	$	185,110	$	673,871

2006						
Net sales	$	1,601,259	$	743,906	$	2,345,165
Operating income	$	45,297	$	15,433	$	60,730
Identifiable assets	$	426,451	$	157,710	$	584,161

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

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Available Information

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

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

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

In accordance with the listing standards of the New York Stock Exchange, each of the Corporate Governance Documents is available on our Company web site (www.systemax.com) and can be obtained upon request by writing to Systemax Inc., Attention: Board of Directors (Corporate Governance), 11 Harbor Park Drive, Port Washington, NY 11050.

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

- *Economic conditions have affected and could continue to adversely affect our revenues and profits.*

Current economic conditions may cause the loss of consumer confidence in the Company s markets which may result in a decrease of spending in the categories of products we sell. It is also possible that as manufacturers react to the marketplace they may reduce manufacturing capacity, creating shortages of product. Both we and our customers are subject to global political, economic and market conditions, including 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. Our results of operations depend upon, among other things, our ability to maintain and increase sales volumes with existing customers, 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, would likely adversely affect us 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 levels of profitability we have recently experienced. In addition, costs actually incurred in connection

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with our restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings.

- *Competitive pressures could harm our revenue and gross margin.*

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. We expect this competition to further intensify in the future. Competitive factors include price, availability, service and support. We compete with a wide variety of other resellers and retailers, as well as manufacturers. Many of our competitors are larger companies with greater financial, marketing and product development resources than ours. 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 many 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 and could be adversely affected by a continuation of our customers shift to lower-priced products.

- *State and local sales tax collection may affect demand for our products.*

Our United States subsidiaries collect and remit sales tax in states in which the subsidiaries have physical presence or in which we believe nexus exists which obligates us to collect sales tax. Other states may, from time to time, claim that we have state-related activities constituting a sufficient nexus to require such collection. Additionally, many other states seek to impose sales tax collection obligations on companies that sell goods to customers in their state, or directly to the state and its political subdivisions, even without a physical presence. Such efforts by states have increased recently, as states seek to raise revenues without increasing the tax burden on residents. We rely 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 have with a particular state will be deemed enough to require us to collect sales tax in that state nor can we be assured that Congress or individual states will not approve legislation authorizing states to impose tax collection obligations on all direct mail and/or e-commerce transactions. A successful assertion by one or more states that we should collect sales tax on the sale of merchandise could result in substantial tax liabilities related to past sales and would result in considerable administrative burdens and costs for us and may reduce demand for our products from customers in such states when we charge customers for such taxes.

- *Business disruptions could adversely impact our revenue 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, judicial decisions, legislation, natural disasters and large losses could materially affect our insurance obligations and future expense.

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- *Changes in financial accounting standards may affect our results of operations.*

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.

Risks Related to Our Company

- *Our reliance on information and communications technology requires significant expenditures and entails risk.*

We rely on a variety of information and telecommunications systems in our operations. Our success is dependent in large part on the accuracy and proper use of our information systems, including our telecommunications systems. To manage our growth, we continually evaluate the adequacy of our existing systems and procedures. 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. In particular, our financial and retail point of sale systems will be replaced during the coming years. The occurrence of a significant system failure, electrical or telecommunications outages or our failure to expand or successfully implement new systems could have a material adverse effect on our results of operations.

Our information systems networks, including our web sites, and applications could be adversely affected by viruses or worms and may be vulnerable to malicious acts such as hacking. Although we take preventive measures, these procedures may not be sufficient to avoid harm to our operations, which could have an adverse effect on our results of operations.

- *We are dependent on third-party suppliers.*

We purchase substantially all of our computer products from major distributors such as Ingram Micro Inc. and Tech Data and directly from large manufacturers such as Hewlett Packard and Acer, who may deliver those products directly to our customers. These 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.

Our PC products contain electronic components, subassemblies and software that in some cases are supplied through sole or limited source third-party suppliers, some of which are located outside of the U.S. Although we do not anticipate any problems procuring supplies in the near-term, there is no assurance that parts and supplies will be available in a timely manner and at reasonable prices. Any loss of, or interruption of, supply from key suppliers may require us to find new suppliers. This could result in production or development delays while new suppliers are located, which could substantially impair operating results. If the availability of these or other components used in the manufacture of our products was to decrease, or if the prices for these components were to increase significantly, operating costs and expenses could be adversely affected.

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.

Many product suppliers provide us with co-op advertising support in exchange for featuring

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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-op advertising support and other incentives received from suppliers may decline in the future, which could increase 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 acquisition of certain assets of CompUSA resulted in the recording of significant intangible assets and goodwill. We are required to test goodwill and intangible assets to determine if the carrying values of these assets are impaired annually 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.

- *We have substantial international operations and we are exposed to fluctuations in currency exchange rates and political uncertainties.*

We operate internationally and as a result, we are subject to risks associated with doing business globally. Risks inherent to operating overseas 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

For example, we currently have operations located in numerous countries outside the United States, and non-U.S. sales (Europe, Canada and Puerto Rico) accounted for approximately 37.9% of our revenue during 2008. 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 inventory risks.*

A substantial portion of our inventory is subject to risk due to technological change and 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.

- *Restrictions and covenants in our credit facility may limit our ability to enter into certain transactions.*

Our United States/United Kingdom combined revolving credit agreement contains covenants restricting or limiting our ability to, among other things:

- incur additional debt

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- create or permit liens on assets
- make capital expenditures or investments
- pay dividends

If we fail to comply with the covenants and other requirements set forth in the credit agreement, we would be in default and would need to negotiate a waiver agreement with the lenders. Failure to agree on such a waiver could result in the lenders terminating the credit agreement and demanding repayment, which would adversely affect our cash position and adversely affect the availability of financing to us, which could materially impact our operations.

- *We have experienced rapid growth in retail stores*

The acquisition of CompUSA in 2008 added 16 retail stores, more than double the then existing number of stores. The addition of these stores requires the Company to effectively manage its cost structure in order to maintain profitability including the additional inventory needs, retail point of sales IT systems, retail personnel and leased facilities. Future growth in retail will also be dependent on the ability to attract customers and build brand loyalty. The retail computer and consumer electronics business is highly competitive and has narrow gross margins. If we fail to manage our growth and cost structure while maintaining high levels of service and meeting competitive pressures adequately, our business plan may not be achieved and may lead to reduced profitability.

- *Rebate Processing*

Similiar to other companies in the technology products industry, we advertise manufacturers mail-in rebates on many products we sell and, in some cases, offer our own rebates. These rebates are processed through third party vendors and in house. If these rebates are not processed in a timely and satisfactory manner by either third party vendors or our in house operations, our reputation in the marketplace could be negatively impacted. See Item 3, Legal Proceedings.

- *Gross profit margins in Technology Products are narrow and variable*

The computer and consumer electronics industry is highly price competitive and gross profit margins are narrow and variable. The Company s ability to reduce prices in reaction to competitive pressure may be limited. Additionally, gross profit 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 was prevalent in the second half of 2008 as a result of the significant decline in economic activity in the markets we serve and we expect this to continue during this or any period of sustained economic decline. 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.

- *We may be liable for misuse, loss or theft of our customers personal information*

In processing our sales orders we often collect personal information and credit card information from our customers. The Company has comprehensive privacy and data security policies in place which are designed to prevent security breaches, however, if a third party or a rogue employee or employees are able to bypass our network security or otherwise compromise our customers personal information or credit card information, we could be subject to liability. This liability may include claims for identity theft, unauthorized purchases, claims alleging misrepresentation of our privacy and data security practices or other related claims.

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- *Increased costs associated with corporate governance compliance may impact our results of operations.*

As a public company, we incur significant legal, accounting and other expenses that we would not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the Securities and Exchange Commission and listing requirements subsequently adopted by the New York Stock Exchange in response to Sarbanes-Oxley, have required changes in corporate governance practices of public companies. These developments have substantially increased our legal compliance, auditing and financial reporting costs and made them more time consuming. These developments may also make it more difficult and more expensive for us to obtain directors and officers liability insurance and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage, possibly making it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee.

- *Our success is dependent upon the availability of credit and financing.*

We require significant levels of capital in our business to finance accounts receivable and inventory. We maintain credit facilities in the United States and in Europe to finance increases in our working capital if available cash is insufficient. The amount of credit available to us at any point in time may be adversely affected by the quality or value of the assets collateralizing these credit lines. In addition, if we are unable to renew or replace these facilities at maturity our liquidity and capital resources may be adversely affected. However, we currently have no reason to believe that we will not be able to renew or replace our facilities when they reach maturity.

- *Sales to individual consumers exposes us to credit card fraud, which could adversely affect our business.*

Failure to adequately control fraudulent credit card transactions could increase our expenses. Increased sales to individual consumers, 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 income tax rate and the value of our deferred tax assets are subject to change.*

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 could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws or by material audit assessments. The carrying value of our deferred tax assets, which are primarily in the United States and the United Kingdom, is dependent on our ability to generate future taxable income in those jurisdictions. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions and a material assessment by a tax authority could affect our profitability.

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- *We may encounter risks in connection with sales of our web-hosted software application.*

In 2004, we introduced our web-based and hosted, on-demand software suite of products, marketed as PCS ProfitCenter Software . We have a limited operating history with this type of product offering and may encounter risks inherent in the software industry, including but not limited to:

- failure to implement effective general and application controls
- errors or security flaws in our product
- technical difficulties which we can not resolve on a timely or cost-effective basis
- inability to provide the level of service commitment
- inability to deliver product upgrades and enhancements
- delays in development
- inability to hire and retain qualified technical personnel
- impact of privacy laws on the use of our product
- exposure to claims of infringement of intellectual property rights

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our primary facilities, which are leased except where otherwise indicated, are as follows:

Facility	Location	Approximate Square Feet	Expiration of Lease
Headquarters, Sales and Distribution Center (1)	Port Washington, NY	86,000	2017
Sales and Distribution Center	Buford, GA	647,000	2021
Sales, Distribution Center and Retail Store	Naperville, IL	330,000	2026
PC Assembly, Sales and Distribution Center	Fletcher, OH	297,000	Owned
Sales and Administrative Center	Miami, FL	80,000	2010
Distribution Center	Las Vegas, NV	90,000	2010
Sales Center	Markham, Ontario	23,000	2013
Sales and Administrative Center	Richmond Hill, Ontario	20,296	2017
Sales, Administrative and Distribution Center	Verrieres le Buisson, France	48,000	2010
Sales, Administrative and Distribution Center	Langen, Germany	92,000	2013
Sales, Administrative and Distribution Center	San Agustin del Guadalix, Spain	38,000	2009
Sales, Administrative and Distribution Center	Lacchiarella, Italy	102,000	2009
Sales and Distribution Center	Greenock, Scotland	78,000	Owned
Sales and Administrative Center	Wellingborough, England	75,000	Owned
Sales and Administrative Center	Amstelveen, Netherlands	21,000	2012
	Lidkoping, Sweden	20,000	2009

Sales, Administrative and Distribution Center			
Sales and Administrative Center	Uniondale, NY	22,719	2012

(1) For information about this facility, leased from related parties, see Item 13 Certain Relationships and Related Transactions and Director Independence.

We also lease space for other smaller offices and retail stores in the United States, Canada, Puerto Rico and Europe and certain facilities leased by the Company are subleased to others. We believe our current facilities provide adequate capacity for our current and projected needs. We intend to renew the leases for our space which would otherwise terminate in 2009.

For further information regarding our lease obligations, see Note 9 to the Consolidated Financial Statements.

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Item 3. Legal Proceedings.

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

On October 18, 2007, Kevin Vukson filed a national class action complaint in U.S. District Court against TigerDirect, Inc., OnRebate.com Inc. and Systemax Inc. on behalf of himself and all OnRebate customers whose rebates were denied or delayed. (OnRebate.com Inc. is a rebate processing company owned by Systemax.). Vukson s complaint (as amended) alleges that since 2004 Systemax, TigerDirect and OnRebate engaged in a conspiracy to engage in deceptive and unfair rebate practices. Vukson alleges counts for violation of state consumer protection statutes, conspiracy, and unfair rebate practices. On February 11, 2009 the Court dismissed Vukson s complaint with leave to file an amended complaint by February 19, 2009 but ordered that any amended complaint not include a request for punitive damages. On February 19, 2009 Vukson filed an amended complaint with no request for punitive damages, as ordered by the Court. The Company will continue to vigorously defend this case.

State of Florida, Office of the Attorney General Subpoena

On January 2, 2008 the Company received a subpoena for documents from the Florida Attorney General s Office relating to the payment and processing of rebates by the Company. The Company received subpoenas for additional documents on January 30, 2008 and on August 25, 2008. The Company is cooperating with the Florida Attorney General s investigation and has provided a substantial number of documents in response to the subpoenas.

Other Matters

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

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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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 New York Stock 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
2008		
First Quarter	$ 20.32	$ 9.01
Second Quarter	20.89	12.06
Third Quarter	18.43	14.04
Fourth Quarter	15.10	8.75
2007		
First Quarter	$ 30.13	$ 18.10
Second Quarter	21.75	16.22
Third Quarter	22.12	17.60
Fourth Quarter	24.47	17.95

On January 3, 2009, the last reported sale price of our common stock on the New York Stock Exchange was $10.87 per share. As of January 3, 2009, we had 230 shareholders of record.

On March 3, 2008, the Company s Board of Directors declared a special dividend of $1.00 per share payable on April 2, 2008 to shareholders of record on March 21, 2008. This special dividend is the second dividend we have paid since our initial public offering. 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 may decide to declare another special dividend in the future.

On March 14, 2007, the Company s Board of Directors declared a special dividend of $1.00 per share payable on April 12, 2007 to shareholders of record on April 2, 2007. This special dividend was the first dividend we have paid since our initial public offering.

In May 2008, the Company s Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company s common stock. During 2008 the Company repurchased 475,301 common shares. Detail of those purchases is as follows:

Fiscal Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs

			or Programs	
August	228,401	$ 15.04	228,401	1,771,599
December	246,900	$ 9.67	475,301	1,524,699
Total	475,301	$ 12.25		

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 2009 annual meeting of shareholders and is incorporated by reference herein.

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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 for fiscal years 2008, 2007 and 2006 and the selected balance sheet data as of December 2008 and 2007 are derived from the audited consolidated financial statements which are included elsewhere in this report. The selected balance sheet data as of December 2006, 2005 and 2004 and the selected statement of operations data for fiscal years 2005 and 2004 are derived from the audited consolidated financial statements of the Company which are not included in this report.

	Years Ended December 31, (In millions, except per share data)									
	2008		2007		2006		2005		2004	
Statement of Operations Data:										
Net sales	$	3,033.0	$	2,779.9	$	2,345.2	$	2,115.5	$	1,928.1
Gross profit	$	464.1	$	426.3	$	342.9	$	307.3	$	286.5
Operating income	$	83.4	$	93.9	$	60.7	$	37.2	$	17.6
Net income	$	52.8	$	69.5	$	45.1	$	11.4	$	10.2
Per Share Amounts:										
Net income diluted	$	1.41	$	1.84	$	1.22	$	.31	$	.29
Weighted average common shares diluted		37.4		37.8		36.9		36.5		35.5
Cash dividends declared per common share	$	1.00	$	1.00	$		$		$	
Balance Sheet Data:										
Working capital	$	250.6	$	274.4	$	229.4	$	169.8	$	148.0
Total assets	$	703.3	$	677.6	$	584.1	$	504.5	$	483.2
Long-term debt, excluding current portion	$	1.4	$	.3	$	.5	$	8.0	$	8.6
Shareholders equity	$	334.0	$	335.8	$	289.5	$	232.8	$	222.6

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

Overview

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

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

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

During the first quarter of 2008 the Company acquired CompUSA s e-commerce business and 16 of its retail leases and related fixtures for direct consideration of approximately $30.6 million. This acquisition accelerated the Company s planned expansion into the retail market place for Technology Products in North America and Puerto Rico.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 to the consolidated financial statements. 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 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. Actual results may differ from these estimates under different conditions or assumptions.

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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 collectibility is reasonably assured. Generally, these criteria are met at the time of receipt by customers when title and risk of loss both are transferred. Sales are shown 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.

Accounts Receivable and Allowance for Doubtful Accounts. We record an allowance for doubtful accounts to reflect our estimate of the collectibility of our trade accounts receivable. We evaluate the collectibility 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 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. 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.

Inventories. We value our inventories at the lower of cost or market, cost being determined on the first-in, first-out method except in Europe and retail locations 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.

Goodwill and, Intangible Assets We apply the provisions of Statement of Financial Accounting Standards No. 142 (FAS 142), Goodwill and Other Intangible Assets, in our valuation of goodwill and other intangible assets. FAS 142 requires that goodwill be reviewed at least annually for potential impairment. The amount of an impairment loss would be recognized as the excess of the asset s carrying value over its fair value.

Long-lived Assets. Management exercises judgment in evaluating our long-lived assets for impairment. We believe we will generate sufficient undiscounted cash flow to more than recover the investments made in property, plant and equipment. 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.

Accruals. Management exercises judgment in estimating various period end liabilities such as costs related to vendor drop shipments, sales returns and allowances, cooperative advertising and customer rebate reserves, and other vendor and employee related costs. While we believe that these estimates are reasonable, any significant deviation of actual costs as compared to these estimates could have a material impact on the Company s consolidated financial statements.

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. Management judgment is also applied in the determination of deferred tax assets and liabilities and any valuation allowances that might be required in connection with our ability to realize deferred tax assets.

Since we conduct operations in numerous US states and internationally, our effective tax rate has and will continue to depend 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

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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 have established, 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 that the reserve we have established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures may be settled at amounts different than the amounts reserved.

We recognize deferred tax assets and liabilities for the effect of temporary differences between the book and tax bases of recorded assets and liabilities and for tax loss carry forwards. The realization of net deferred tax assets is dependent upon our ability to generate sufficient future taxable income. Where it is more likely than not that some portion or all of the 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. In the event that actual results differ from these estimates or we adjust these estimates in future periods, an adjustment to the valuation allowance may be required, which could materially affect our consolidated financial position and results of operations.

Restructuring charges. We have taken restructuring actions in the past and could in the future commence further restructuring activities which result in recognition of restructuring charges if events make it necessary. These actions require management to make judgments and utilize significant estimates regarding the nature, timing and amounts of costs associated with the activity. When we incur a liability related to a restructuring action, we estimate and record all appropriate expenses, including expenses for severance and other employee separation costs, facility consolidation costs (including estimates of sublease income), lease cancellations, asset impairments and any other exit costs. Should the actual amounts differ from our estimates, the amount of the restructuring charges could be impacted, which could materially affect our consolidated financial position and results of operations.

Recently Adopted and Newly Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements . This statement was issued to increase consistency and comparability in fair value measurements and for expanded disclosures about fair value measurements. Effective January 1, 2008 the Company adopted the provisions of SFAS No. 157, which did not have a material impact on the Company s consolidated financial statements.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, which provides for a one-year deferral of the provisions of SFAS No. 157 until fiscal years beginning after December 15, 2008 for non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a non-recurring basis. The Company is currently evaluating the potential impact, if any, of FSP 157-2.

In April 2008, the FASB issued FSP FAS 142-3 Determination of the Useful Life of Intangible Assets . FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The standard applies prospectively to intangible assets acquired and/or recognized on or after January 1, 2009. The Company is currently evaluating the impact, if any, the adoption of this FSP may have on the Company s consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1 Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities . This FSP was issued to clarify that instruments granted in share-based payment transactions can be participating securities prior

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to the requisite service having been rendered. The guidance in this FSP applies to the calculation of Earnings Per Share (EPS) under Statement 128 for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of this FSP. The Company does not expect the adoption of this FSP to have a material impact on its consolidated financial statements.

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

In December 2007, the FASB issued SFAS No. 160, Accounting and Reporting of Non-controlling Interest . The objective of SFAS No. 160 is to improve the relevance, comparability and transparency of the financial information that reporting entities provide related to non-controlling interests, sometimes referred to as minority interests. SFAS No. 160 requires, among other things, that non-controlling interests be shown separately in the consolidated entity s equity section of the balance sheet. SFAS No. 160 also establishes accounting and reporting standards for ownership interest in subsidiaries held by parties other than the parent, for presentation of amounts of consolidated net income attributable to the parent and the non-controlling interest, for consistency in accounting for changes in a parent s ownership interest when the parent retains a controlling interest, for the valuation of retained non-controlling equity interests when a subsidiary is deconsolidated and for providing sufficient disclosure that identifies and distinguishes the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 is effective beginning January 1, 2009. The Company does not expect the adoption of SFAS No.160 to have a material impact on its consolidated financial statements.

Highlights from 2008

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.

- Sales increase of 9% in 2008 over 2007
- CompUSA.com and CompUSA retail contributed $226.3 million in sales
- Movements in exchange rates positively impacted European and Canadian sales by approximately $13 million and $5 million, respectively

- Revenue growth slowed in the second half of 2008

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Results of Operations

Key Performance Indicators (in thousands):

	Years Ended December 31,					
	2008	2007	% Change	2007	2006	% Change
Net sales by segment:						
Technology products	$ 2,795,441	$ 2,553,716	9.5%	$ 2,553,716	$ 2,148,104	18.9%
Industrial products	237,027	225,746	5.0%	225,746	196,860	14.7%
Software solutions	493	413	19.4%	413	201	105.5%
Total net sales	$ 3,032,961	$ 2,779,875	9.1%	$ 2,779,875	$ 2,345,165	18.5%
Net sales by geography:						
North America	$ 2,092,372	$ 1,847,477	13.3%	$ 1,847,477	$ 1,601,259	15.4%
Europe	940,589	932,398	.9%	932,398	743,906	25.3%
Total net sales	$ 3,032,961	$ 2,779,875	9.1%	$ 2,779,875	$ 2,345,165	18.5%
Gross margin	15.3%	15.3%		15.3%	14.6%	.7%
SG&A costs	$ 380,778	$ 332,359	14.6%	$ 332,359	$ 282,189	17.8%
SG&A costs as % of sales	12.6%	12.0%	.6%	12.0%	12.0%	(.)%
Operating income	$ 83,367	$ 93,942	(11.3)%	$ 93,942	$ 60,730	54.7%
Operating margin	2.7%	3.4%	(.7)%	3.4%	2.6%	.8%
Effective income tax rate	36.9%	30.5%	6.4%	30.5%	35.2%	(4.7)%
Net income	$ 52,843	$ 69,481	(23.9)%	$ 69,481	$ 45,147	53.9%
Net margin	1.7%	2.5%	(.8)%	2.5%	1.9%	.6%

NET SALES

Net sales grew 9% to $3 billion driven by growth in both technology and industrial products segments. Excluding the effects of exchange rate changes, sales would have grown 8%. North American technology products sales grew 14% to $1.9 billion. Exchange rate changes did not impact full year sales growth. European technology products sales grew 1% to $940.6 million. Excluding exchange rate benefits, European sales would have been flat.

Sales increased in all three reporting business segments and in both geographies during 2008 over 2007. The Technology Products sales increase was driven by increased internet and retail store sales as the result of the acquisition of the CompUSA ecommerce business and re-opening sixteen retail stores. Sales attributable to CompUSA web and retail were $226.3 million for the year. Excluding CompUSA revenue, total Technology Products revenues increased 0.6% compared to the prior year. In the United States, Technology Products sales excluding CompUSA declined 1.0% for the year. The decline over the year is the result of slower business to business IT and consumer electronics sales as United States economy activity slowed in the second half of 2008. In Europe sales increased .9% compared to a year ago. Movements in foreign exchange rates positively impacted the European sales comparison by approximately $13 million for the year. Excluding exchange rate benefits, European sales would have been flat year over year. Sales in Canada (Other North America) increased by 13.9% compared to the prior year. Excluding exchange rate benefits, sales would have increased 10.9% for the year. The increased sales are primarily the result of the opening of one additional retail store, increased business to business and web sales and generally more stable economic conditions in Canada as compared to other locations. As in the United States, sales slowed in the second half of 2008 in Europe and Canada for both consumer and business to business sales as the result of a slowdown in economic activity.

The growth in Industrial Products sales resulted from the Company increasing its market share through aggressive acquisition of customers via web and catalog, increased web advertising by expanding and refining advertisements for existing product lines and adding new advertising for new product lines via search engines, shipping engines and vertical market sites.

In our Software Solutions segment, revenues continue to be insignificant relative to consolidated revenues. In the fourth quarter of 2008, the Company reorganized its Software business to reduce its net

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loss and negative cash flow. The actions taken resulted in a charge to earnings of approximately $1.7 million. The Company expects to realize savings of approximately $2.6 million annually.

Sales increased in all three reporting business segments and in both geographies during 2007 over 2006. The growth in Technology Products sales was driven primarily by increased internet and retail store sales, private label product sales and expanded product offerings. The growth in Industrial Products sales resulted from the Company increasing its market share through competitive pricing advantages and increased internet sales. The growth in North American sales reflected the above factors in both segments. The growth in European sales was driven by strong business to business gains and by the effect of a weaker US dollar. Exchange rates positively impacted the European sales comparison by approximately $78 million in 2007 as compared to 2006. Excluding the movements in foreign exchange rates, European sales would have increased 12% from the prior year. Sales as measured in local currencies increased in all of the European markets we served in 2007. Sales in our Software segment were not material in 2007 and 2006 due to early stage of operations.

GROSS MARGIN

Consolidated gross margin remained consistent year over year at 15.3%, although in the fourth quarter of 2008 the Company s gross margin declined to 14.4% as the Company lowered certain product prices and offered freight incentives in order to gain market share and respond to competitive pricing pressures. Gross margin is dependent on variables such as product mix, vendor price protection and other sales incentives, competition, pricing strategy, cooperative advertising funds required to be classified as a reduction of cost of sales, freight discounting and other variables, any or all of which may result in fluctuations in gross margin.

Gross margin increased 70 basis points during 2007 over 2006, due primarily to decreased competitive pricing pressures in the Technology Products segment.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses increased in 2008 over 2007 primarily as a result of the increase in sales volume, added personnel, facility and other operating costs associated with the CompUSA acquisition, as well as increased accounting, auditing, legal and professional expenses and reorganization charges incurred in our Software segment. Significant expense increases include approximately $27.0 million of increased sales and other salaries and related costs related to the increased sales volume; rent and real estate tax increases of $10.6 million; $5.8 million of increased professional and telephone/computer maintenance costs; and $4.3 million of increased credit card fees. CompUSA operations accounted for $23.6 million of these cost increases. Included in 2007 is a gain of approximately $2.4 million from a lawsuit that was settled favorably.

Selling, general and administrative expenses increased in 2007 over 2006 primarily as a result of the increase in sales volume as well as increased accounting, auditing, legal and consulting costs related to the Company being subject to Sarbanes Oxley section 404 requirements. Significant expense increases include approximately $26 million of increased internet advertising costs, $8 million of increased sales salaries related to the increased sales volume and an increase in other salaries and related costs of approximately $15 million due to increased staff in areas such as finance, marketing and information technology.

INTEREST AND OTHER INCOME AND INTEREST EXPENSE

Interest expense was $.3 million, $1.0 million and $1.7 million in 2008, 2007 and 2006. Interest expense decreased in 2008 and 2007 as a result of decreased short-term borrowings in the United Kingdom and the Netherlands. The extinguishment of mortgage debt related to our Georgia warehouse sale in the first quarter of 2006 also contributed to the decreased interest expense. Interest and other income, net was $2.0 million, $5.5 million and $9.5 million in 2008, 2007 and 2006. The increase in other income in 2006 mainly resulted from the gain on sale of the Georgia location.

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INCOME TAXES

The Company s effective tax rate was 36.9% in 2008 as compared to 30.5% in 2007. The higher tax rate in 2008 is primarily attributed to a higher effective tax rate in the United Kingdom in 2008 as the result of the reversal of the valuation allowance in 2007. The lower effective tax rate in 2007 resulted primarily from the reversal of a valuation allowance of approximately $5.9 million against deferred tax assets in the United Kingdom partially offset by the recording of a valuation allowance of approximately $1.7 million against the deferred tax assets of Germany. The United Kingdom valuation allowance, originally recorded at $10.2 million, had been established in 2005 as the result of a cumulative loss position in the United Kingdom.

During 2008, 2007 and 2006, we did not recognize certain foreign tax credits, certain state deferred tax assets in the United States and certain benefits on losses in foreign tax jurisdictions due to our inability to carry such credits and losses back to prior years and our determination that it was more likely than not that we would not generate sufficient future taxable income in those tax jurisdictions to realize these assets. Accordingly, valuation allowances were recorded against the deferred tax assets associated with those items. If we are able to realize all or part of these deferred tax assets in future periods, it will reduce our provision for income taxes by a release of the corresponding valuation allowance.

Seasonality

Net sales have historically been modestly weaker during the second and third quarters as a result of lower business activity during those months. The 2008 amounts were impacted by the CompUSA acquisition. The following table sets forth the net sales, gross profit and income from operations for each of the quarters since January 1, 2006 *(amounts in millions)*.

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
2008				
Net sales	$ 725	$ 756	$ 739	$ 813
Percentage of year s net sales	23.9%	24.9%	24.4%	26.8%
Gross profit	$ 115	$ 116	$ 116	$ 117
Operating income	$ 26	$ 21	$ 20	$ 16
2007				
Net sales	$ 676	$ 647	$ 687	$ 769
Percentage of year s net sales	24.3%	23.3%	24.7%	27.7%
Gross profit	$ 97	$ 99	$ 111	$ 120
Operating income	$ 22	$ 20	$ 24	$ 28
2006				
Net sales	$ 575	$ 547	$ 575	$ 648
Percentage of year s net sales	24.5%	23.3%	24.5%	27.6%
Gross profit	$ 90	$ 77	$ 92	$ 83
Operating income	$ 21	$ 10	$ 19	$ 11

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Financial Condition, Liquidity and Capital Resources

Selected liquidity data (in thousands):

	December 31, 2008		2007		$ Change
Cash and cash equivalents	$	115,967	$	128,021	$ (12,054)
Accounts receivable, net	$	190,909	$	207,460	$ (16,551)
Inventories	$	282,217	$	250,222	$ 31,995
Prepaid expenses and other current	$	12,667	$	13,902	$ (1,235)
Accounts payable	$	284,378	$	248,673	$ 35,705
Accrued expenses	$	75,603	$	81,637	$ (6,034)
Short term debt	$	773	$	4,302	$ (3,529)
Working capital	$	250,564	$	274,353	$ (23,789)

Our primary liquidity needs are to support working capital requirements in our business, to fund capital expenditures, to fund the payment of interest on outstanding debt and to effect small acquisitions. We rely principally upon operating cash flow to meet these needs. In addition we have available a credit facility of approximately $120 million We believe that cash flow available from these sources will be sufficient to meet our working capital requirements, projected capital expenditures and interest and debt repayments in the foreseeable future.

Our working capital decreased in 2008 as the result of use of approximately $30.6 million cash for the purchase of certain CompUSA assets, payment of $37.1 million for a special dividend, stock repurchases of $5.8 million and an increase in inventory, primarily related to purchasing inventory for the 16 CompUSA retail stores. Accounts payable balances increased by approximately $35.7 million offset by a decrease of approximately $6.0 million in accrued expenses and a reduction in short term debt in Europe. Inventory turnover was at 9 times during 2008 and 10 times at 2007. Our accounts receivable days outstanding was at 21 in 2008 down from 24 in 2007. We expect that future accounts receivable and inventory balances will fluctuate with growth in net sales and the mix of our net sales between consumer and business customers.

We maintain our cash and cash equivalents primarily in money market funds or their equivalent. As of December 31, 2008, all of our investments mature in less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Net cash provided by operating activities was $82.4 million, $93.1 million and $34.3 million during 2008, 2007 and 2006. The decrease in cash provided by operating activities in 2008 over 2007 resulted from a $3.3 million decrease in net income adjusted by other non-cash items, such as depreciation expense, and a decrease of $7.4 million in cash used for changes in our working capital accounts. The increase in cash provided by operating activities in 2007 over 2006 resulted from a $27.0 million increase in net income adjusted by other non-cash items, such as depreciation expense, and an increase of $31.7 million in cash used for changes in our working capital accounts.

Net cash used in investing activities was $47.7 million during 2008, primarily for the CompUSA acquisition and for capital expenditures. Net cash used in investing activities was $8.0 million during 2007, primarily for capital expenditures. Net cash provided by investing activities during 2006 consisting of proceeds from disposals of property and equipment of $18.9 million from the sale of our distribution facility in Suwanee, Georgia offset by cash used for capital expenditures of $6.7 million. Capital expenditures in 2008, 2007 and 2006 included upgrades and enhancements to our information and communications systems hardware and facilities costs for the opening of additional retail outlets stores in North America.

Net cash used in financing activities was $42.8 million during 2008. We repaid approximately $3.9 million in short-term debt, paid a special dividend of $37.1 million, and repurchased Company stock of approximately $5.8 million. Proceeds and excess tax benefits from stock option exercises and proceeds

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from debt and capital leases obligations provided approximately $4.0 million of cash. Net cash used in financing activities was $42.5 million during 2007, attributable to dividends paid of $36.6 million, repayment of short term debt of $9.0 million, offset by proceeds of stock option exercises, related excess tax benefits and share repurchases of $3.1 million. Net cash of $22.1 million was used in financing activities for 2006. Repayment of short and long-term borrowings used approximately $24.8 million of cash and proceeds from stock option exercises and excess tax benefits from stock option exercises provided approximately $2.6 million of cash.

We have a $120.0 million secured revolving credit agreement (which may be increased by up to an additional $30.0 million, subject to certain conditions). The facility expires in October 2010. Borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and 40% of qualified inventories and are secured by accounts receivable, inventories and certain other assets. The undrawn availability under the facility may not be less than $15.0 million until the last day of any month in which the availability net of outstanding borrowings is at least $70.0 million. The revolving credit agreement requires that we maintain a minimum level of availability. If such availability is not maintained, we will then be required to maintain a fixed charge coverage ratio (as defined). The agreement contains certain other covenants, including restrictions on capital expenditures and payments of dividends. As of December 31, 2008, the Company was in compliance with all of the covenants under the credit facility. Eligible collateral under the facility was $103.5 million, total availability was $94.4 million, outstanding letters of credit of were $9.1 million and there were no outstanding advances.

The Company s Netherlands subsidiary maintained a 5.0 million credit facility with a local financial institution. This facility expired in November 2008 and was not renewed.

In April 2002, we entered into a ten year, $8.4 million mortgage loan on our Suwanee, Georgia distribution facility. During the first quarter of fiscal 2006, we sold this facility and repaid the remaining balance on the loan. The facility was replaced by a larger, leased distribution center in a nearby area.

We are obligated under non-cancelable operating leases for the rental of most of our facilities and certain of our equipment which expire at various dates through 2026. We have sublease agreements for unused space we lease in Wellingborough, England. In the event the sublessee is unable to fulfill its obligations, we would be responsible for rent due under the lease.

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 2008 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:					
Capital lease obligations	$ 2,451	$ 905	$ 1,421	$ 125	$
Non-cancelable operating leases, net of subleases	135,609	19,034	47,880	31,794	36,901
Purchase & other obligations	28.483	21,093	4,531	2,859	
Tax contingencies	1,195	1,195			

Total contractual obligations	$	167,738	$	42,227	$	53,832	$	34,778	$	36,901

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

In addition to the contractual obligations noted above, we had $9.1 million of standby letters of credit outstanding as of December 2008.

Our operating results have generated cash flow which, together with borrowings under our debt agreements, has provided sufficient capital resources to finance working capital and cash operating requirements, fund capital expenditures, and fund the payment of interest on outstanding debt. Our primary ongoing cash requirements will be to finance working capital, fund the payment of principal and interest on indebtedness, fund capital expenditures and fund small acquisitions. We believe future cash flows from operations and availability of borrowings under our lines of credit will be sufficient to fund ongoing cash requirements for at least the next twelve months.

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.

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.

The Company currently leases its facility in Port Washington, NY from Addwin Realty Associates, an entity owned by Richard Leeds, Bruce Leeds, and Robert Leeds, Directors of the Company and the Company s three senior executive officers and principal stockholders.

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 Pounds Sterling, Euros and Canadian Dollars) as measured against the U.S. Dollar and each other.

The translation of the financial statements of our operations 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 $112 million and pre tax income would have fluctuated by approximately $2.3 million if average foreign exchange rates changed by 10% in 2008. 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 2008 we had no outstanding forward exchange contracts.

Our exposure to market risk for changes in interest rates relates primarily to our variable rate debt. Our variable rate debt consists of short-term borrowings under our credit facilities. As of December 2008, 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.

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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, 2008. 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 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. 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, 2008.

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The Company s independent registered public accounting firm, Ernst & Young, has issued an attestation report on the effectiveness of the Company s internal control over financial reporting as of December 31, 2008, a copy of which is included in this report.

Changes in Internal Control Over Financial Reporting

In conjunction with the Company s Section 404 compliance efforts, the Company has continued to make improvements to its internal control over financial reporting, including remediation of the significant deficiency in the consolidation process previously noted. The nature of these improvements was incremental, and the impact was not material both individually and in the aggregate.

There have been no changes in the Company s internal controls over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information.

None.

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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 2009 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 10 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.

(a)	1. Consolidated Financial Statements of Systemax Inc.	**Reference**